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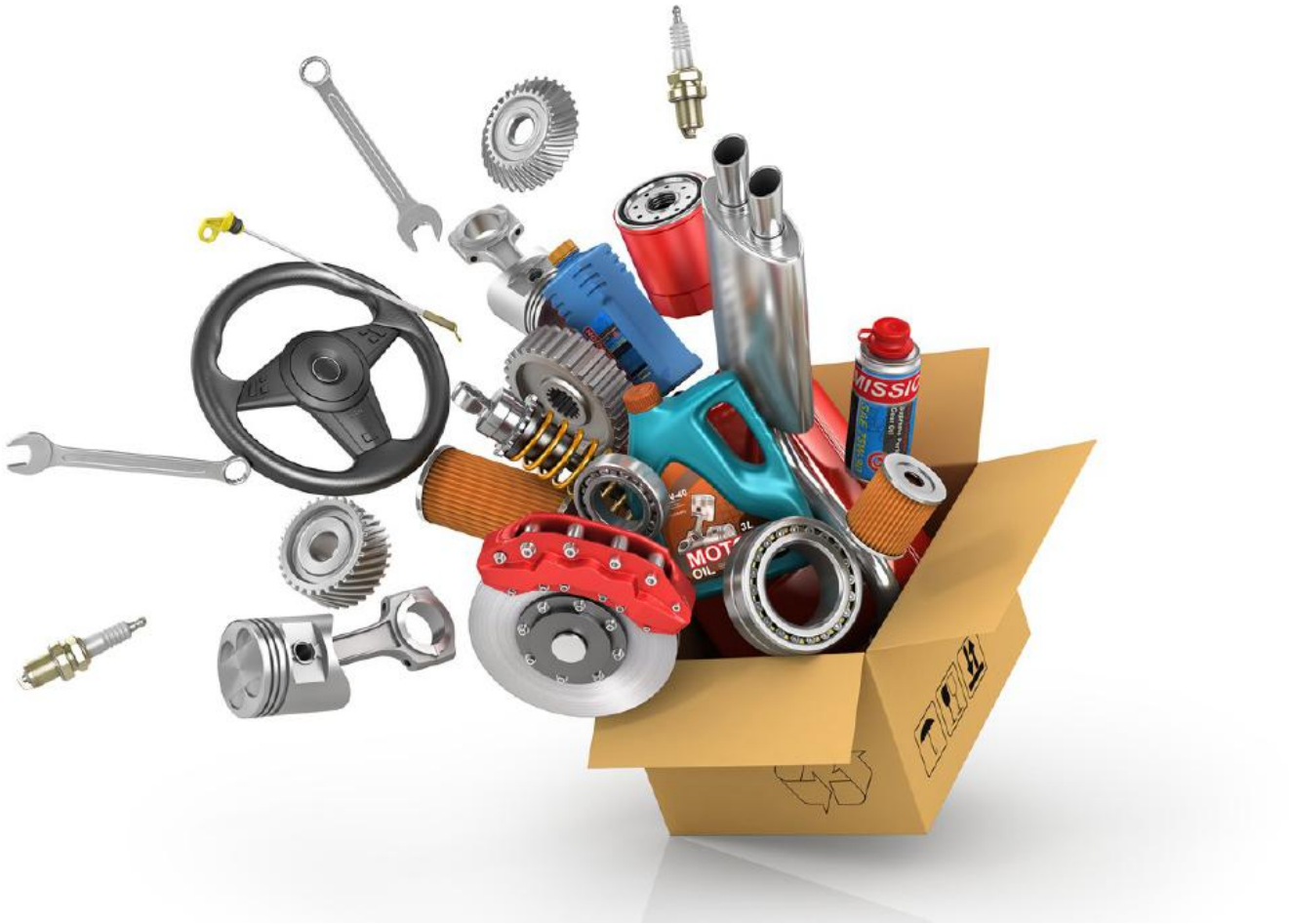
ASIA PACIFIC INSIGHT

August 10, 2020 09:47 PM GMT

China Autos & Shared Mobility

Winning in the Aftermarket



Despite a slowing new car market, we look for 7% CAGR revenue opportunities from the auto aftermarket in 2020-25. Auto dealers, especially for luxury brands, will remain the mainstay for after-sales services, while independent repair chain stores have a chance to shine.

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China Autos & Shared Mobility

Winning in the Aftermarket

Despite a slowing new car market, we look for 7% CAGR revenue opportunities from the auto aftermarket in 2020-25. Auto dealers, especially for luxury brands, will remain the mainstay for after-sales services, while independent repair chain stores have a chance to shine.

Industry View

China Autos & Shared Mobility — Cautious

WHAT'S CHANGED

	From	To
China MeiDong Auto Holdings Ltd		
Price Target	HK$25.00	**HK$27.00**
China Yongda Automobiles Services		
Price Target	HK$12.00	**HK$10.00**
China Zhengtong Auto Services		
Price Target	HK$1.30	**HK$1.10**
Cango Inc.		
Price Target	US$5.20	**US$5.90**

Profit shifting from new car market to aftermarket: We believe China's automotive aftermarket sales will grow at a 7% CAGR in 2020-25, to a Rmb1.6trn revenue opportunity by 2025, and become the major profit driver for auto dealers and repair stores. We expect aftermarket growth to outpace flattish new car sales, and be supported by: 1) an increasing car parc, at a 6% CAGR in 2020-25, as the vehicle population continues to expand despite minimal growth in new car sales; 2) an aging car parc, as we gauge the average vehicle age in China at five years at the end of 2019, below the US at 12 years and Japan at nine years.

Luxury dealers will continue to dominate in the aftermarket: Authorized dealers have been dominating China's aftermarket with 50-60% market share, we estimate; the remainder is mainly shared across small mom-and-pop repair stores. We expect luxury dealers, such as Zhongsheng and Meidong, to remain the mainstay after-sales channel for luxury cars sold, thanks to higher customer retention, an extended warranty period and greater intention to preserve used car value.

Independent repair chain stores have an opportunity to shine: Meanwhile, thanks to the rapid development of e-commerce and express logistics industries, we expect independent repair chain stores, especially those backed by Internet companies and OEMs, such as Tuhu, Tmall Car (by Alibaba), Jing Che Hui (by JD) and Che Xiang Jia (by SAIC), to consolidate the industry with an 18ppt market share gain from mass-market dealers and mom-and-pop stores.

EV challenge remains distant: EVs have a modularized and thus simpler structure than internal combustion engine (ICE) cars and require less servicing, thus we estimate after-sales demand per car will shrink by 30-35% on EVs. That said, we believe the EV challenge remains distant, because: 1) EVs have similar demand for accident repair and accessory sales, which account for 50-70% of existing after-sales revenue, and have incremental demand for e-powertrain coolants; and 2) EV parc penetration is set to remain low at 20% by 2030, while the ICE car parc keeps growing. Further, EV makers such as Tesla are outsourcing bodyshop services to other dealers and independent repair stores, which creates extra revenue opportunities for luxury dealers.

Stock implications: We look for luxury dealers to benefit from rising aftermarket demand. Among them, **Zhongsheng** (0881.HK) is well positioned thanks to active efforts to extend warranty periods; **Meidong** (1268.HK) has high growth potential from after-sales as a younger dealer group; **Yongda** (3669.HK) can benefit too, but to a lesser extent, because it has 15-20% sales exposure to SAIC brands, and might lose some after-sales business to SAIC-backed Che Xiang Jia. **Cango** (CANG.N), as a leading auto transaction service platform, could benefit by facilitating aftermarket transactions in lower-tier cities. **Fuyao Glass** (3606.HK / 600660.SS) has only 20% market share in the China aftermarket, versus 60-70% in OEMs, and has potential to further penetrate the aftermarket. **Alibaba** (BABA.N) and **JD** (JD.O) can leverage their large user base, and direct online traffic to their offline aftermarket franchises. **PICC P&C** (2328.HK) could save costs by developing its own aftermarket supply chain.

With this note, Shelley Wang takes coverage of Cango Inc.

Exhibit 1:

Summary of price target changes

Company	Ticker	Rating		Price target	
				New	Old
Zhongsheng	0881.HK	OW	HKD	60.0	60.0
Meidong	1268.HK	OW	HKD	**27.0**	25.0
Yongda	3669.HK	OW	HKD	**10.0**	12.0
Zhengtong	1728.HK	EW	HKD	**1.1**	1.3
Baoxin	1293.HK	EW	HKD	1.3	1.3
Cango	CANG.N	EW	USD	**5.9**	5.2

Source: Morgan Stanley Research

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Order of Preference

Exhibit 2:

Order of preference

	Zhongsheng 0881.HK	Meidong 1268.HK	Yongda 3669.HK	Zhengtong 1728.HK	Cango CANG.N	Baoxin 1293.HK
Rating	Overweight	Overweight	Overweight	Equal-Weight	Equal-weight	Equal-weight
Trading Currency	HKD	HKD	HKD	HKD	USD	HKD
Price Target	**60.00**	**27.00**	**10.00**	**1.10**	**5.90**	**1.30**
Current Price	48.75	22.85	8.21	1.06	6.09	1.36
Upside/(Downside) (%)	23%	18%	22%	4%	-3%	-4%
Market Cap (in USD mm)	15,274.2	3,406.4	2,081.6	368.9	923.5	497.9
Avg Daily Traded Vol (in USD mm)	16.7	4.7	7.2	4.9	0.0	0.4
Morgan Stanley Estimates						
FY20e	CNY	CNY	CNY	CNY	CNY	CNY
Sales	141,416	20,707	63,796	34,899	1,353	37,956
EBITDA	10,478	1,390	3,438	2,895	202	2,357
EBIT	9,019	1,170	2,944	2,287	202	1,804
EPS	2.21	0.66	0.79	0.22	1.55	0.21
FY21e						
Sales	163,978	27,420	72,539	36,890	1,697	40,626
EBITDA	12,774	2,075	4,140	3,162	442	2,681
EBIT	11,186	1,806	3,603	2,554	442	2,083
EPS	2.83	1.06	1.00	0.26	2.73	0.26
Valuation Multiples at Last Close						
FY20e						
P/E	19.9x	31.3x	9.3x	4.4x	27.3x	5.8x
EV/EBIT	13.3x	20.7x	8.4x	6.8x	22.2x	6.4x
EV/EBITDA	11.5x	17.4x	7.2x	5.3x	22.2x	4.9x
EV/Sales	0.8x	1.2x	0.4x	0.4x	3.3x	0.3x
FCF Yield	5.2%	0.6%	0.7%	65.5%	NA	-12.9%
FY21e						
P/E	15.5x	19.4x	7.4x	3.7x	15.5x	4.7x
EV/EBIT	10.5x	13.3x	7.0x	6.0x	10.1x	5.8x
EV/EBITDA	9.2x	11.6x	6.1x	4.9x	10.1x	4.5x
EV/Sales	0.7x	0.9x	0.4x	0.4x	2.6x	0.3x
FCF Yield	6.2%	3.9%	12.0%	56.6%	NA	-18.5%
Stock Price Performance						
1 Month	4.3%	8.6%	(11.7%)	(21.5%)	7.4%	3.0%
3 Month	51.6%	68.5%	17.2%	(10.9%)	19.9%	54.5%
1 Year	141.3%	328.7%	29.6%	(57.9%)	(4.2%)	(8.7%)
YTD	52.8%	123.6%	19.0%	(61.9%)	(33.4%)	(8.7%)

Source: Morgan Stanley Research, Thomson Reuters (consensus mean). e = Morgan Stanley Research estimates

Note: Past performance is no guarantee of future results. Results shown do not include transaction costs. Priced as of the close, 7 August 2020.

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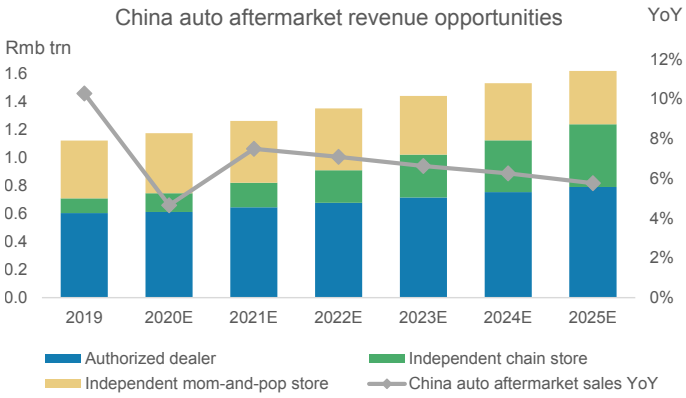
Key Charts to Watch

Exhibit 3:

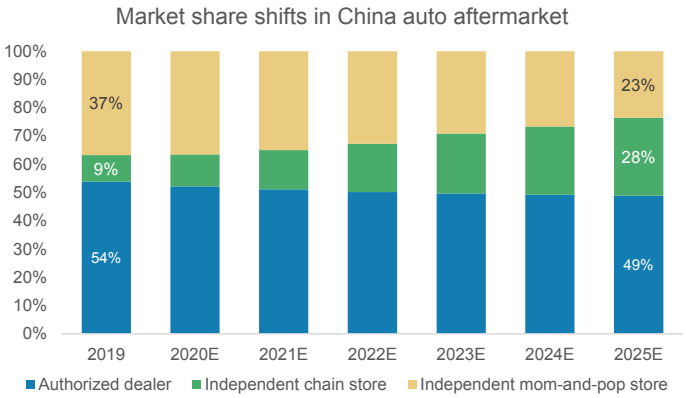
We expect the China auto aftermarket to reach a Rmb1.6trn revenue opportunity by 2025



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

Exhibit 4:

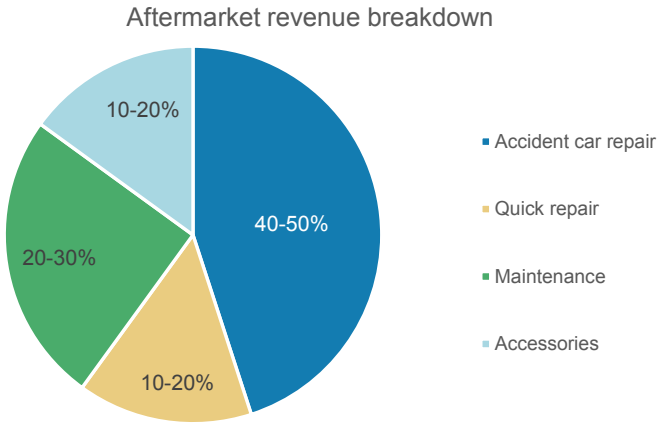
Authorized dealers will still dominate while independent repair stores have a chance to shine



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

Exhibit 5:

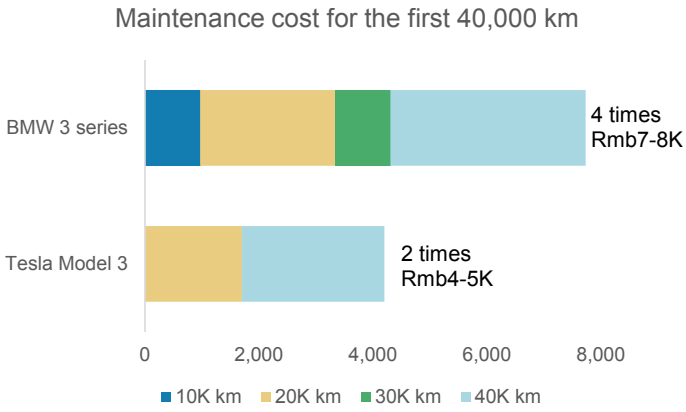
Car repair, needed by both ICE and EV, accounts for 40-50% of after-sales revenue (2020E)



Source: Company data, Morgan Stanley Research

Exhibit 6:

Maintenance cost of EVs is only 50-60% of ICE's



Source: Tesla, BMW, Morgan Stanley Research

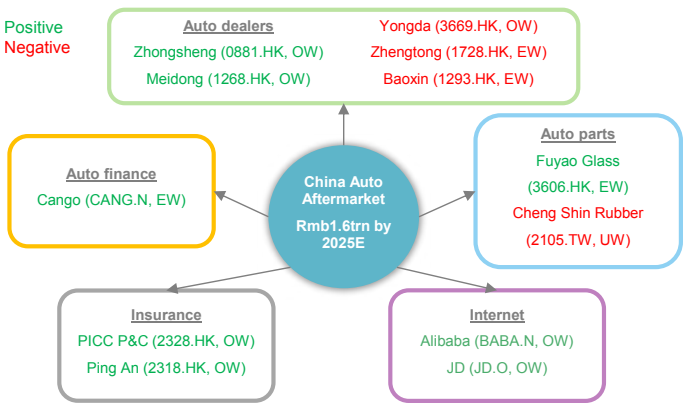
Exhibit 7:

Some independent aftermarket brands are backed by Internet/OEM/ parts makers

Source: Morgan Stanley Research

Exhibit 8:

Stock implications



Source: Morgan Stanley Research

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Investment Summary

Profit shifting from new car market to aftermarket: We believe China's automotive aftermarket sales, which include services (for repair and maintenance) and parts (for replacement and accessories), will grow at a 7% CAGR in 2020-25, to a Rmb1.6trn revenue opportunity by 2025. Also, the aftermarket will become the major profit driver for dealers and repair stores, at 4x the profit size of the new car distribution market, per our estimate. We believe the aftermarket growth will be supported by: 1) an increasing car parc, at a 6% CAGR in 2020-25, as the US experience suggests the vehicle population can continue to expand despite minimal growth in new car sales, and 2) an aging car parc, as we gauge the average vehicle age in China is five years as at the end of 2019, well below the US at 12 years and Japan at nine years. An older car fleet can lead to higher maintenance and repair spending per vehicle.

Luxury dealers will continue to dominate in the aftermarket: China's auto aftermarket is fragmented, with authorized dealers accounting for 50-60% market share in 2019 per our simulation. Small size mom-and-pop stores take up the majority of the rest market share, while independent repair chain stores remain minority. We expect luxury dealers, such as Zhongsheng and Meidong, to remain the mainstay after-sales channel for luxury cars sold, thanks to: 1) higher customer retention as they are less price sensitive; 2) extended warranty periods to retain the customer for a longer time; and 3) greater intention to preserve used car value, as the used car market develops over time.

Independent repair chain stores have an opportunity to shine: Meanwhile, thanks to the rapid development of e-commerce and express logistics industries, we expect independent repair chain stores, especially those backed by Internet companies / OEMs / parts makers, such as Tuhu (on its own, invested by Tencent), Tmall Car (backed by Alibaba), Jing Che Hui (backed by JD), Che Xiang Jia (backed by SAIC), and TyrePlus (backed by Michelin), to consolidate the industry with an 18ppt market share gain from mass-market dealers and mom-and-pop stores. In the US, independent auto parts retailers AutoZone (AZO.N) and O'Reilly (ORLY.O, both covered by Simeon Gutman) enjoyed 5-14% revenue CAGRs in 2000-19, and became 3x the size of the largest auto dealer group AutoNation (AN.N, covered by Armintas Sinkevicius) in the aftermarket business. We look for certain high-quality repair chain stores to outshine mom-and-pop stores by 2025 in China. That said, given less of a culture for DIY (do-it-yourself) in China, we expect the dealership or DIFM (do-it-for-me) business model will prevail.

EV challenge to after sales service remains distant: EVs have a modularized and thus simpler structure than ICE cars and thus require less servicing. As a result, we estimate after-sales demand per car will shrink by 30-35% on EVs. That said, we believe the EV challenge remains distant, because: 1) EVs have similar demand for accident repair and accessory sales, and have incremental demand for e-powertrain coolants, and 2) we think EV parc penetration will remain low at 20% by 2030 (despite high EV sales growth), while the ICE car parc keeps growing. In addition, EV makers such as Tesla are outsourcing bodyshop services to other dealers and independent repair stores, which creates extra revenue opportunities for luxury dealers.

Stock implications: We look for luxury dealers to benefit from rising aftermarket demand. Among which, **Zhongsheng** (0881.HK) is well positioned thanks to its efforts to extend warranty periods; **Meidong** (1268.HK) has high growth potential for after-sales as a younger, fresher dealer group; **Yongda** (3669.HK) can benefit too, but to a lesser extent, as we estimate it has 15-20% sales exposure to brands under the SAIC Group such as VW and GM, and therefore might lose some after-sales business to SAIC-backed Che Xiang Jia. **Zhengtong** (1728.HK)'s weak new car sales and **Baoxin** (1293.HK)'s stagnant network expansion will lead to a lower-than-peer growth in their after-sales business. **Cango** (CANG.N) as a leading auto transaction service platform, could benefit by facilitating aftermarket transactions such as personal accident, anti-theft, extended warranty insurance sales, in lower-tier cities. **Fuyao Glass** (3606.HK / 600660.SS) has only 20% market share in the China aftermarket, versus 60-70% in OEM, and has the potential to further penetrate the aftermarket via subsidiary TripleX. **Cheng Shin Rubber** (2105.TW) is likely to face intensifying competition in the aftermarket tire business, where it generates 70% of revenue, but may lose market share to Chinese local and Korean players. **Alibaba** (BABA.N) and **JD** (JD.O) can leverage their large user base, and direct online traffic to their offline aftermarket franchises. **PICC P&C** (2328.HK) could save costs by developing its own aftermarket supply chain.

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Company	Ticker	Competitive positioning in aftermarket	Upcoming catalysts
Zhongsheng (OW)	0881.HK	• (+) Active promotion of "warranty extension insurance plans" will retain customers for further 3-4 years. • (+) Rapid expansion of used car business, underpinned by favorable VAT cut, will add 5-10% extra growth to Zhongsheng in 2020. • (-) Customers for mass-market brands might switch to independent repair stores, given >8 average store age.	• Mercedes-Benz new car pricing. • Used car transaction volume growth. • After-sales recovery pace in 2H20.
Meidong (OW)	1268.HK	• (+) Younger average store age, at four years, implies Meidong's after-sales growth can outdo other listed dealer groups. • (+) Meidong management used to focus on new car business, but will emphasize after-sales KPIs in the future, which suggests room for improvement. • (-) Customers in the lower-tier cities might be more price sensitive and choose cheaper alternatives.	• BMW new car pricing. • New store expansion progress. • After-sales recovery pace in 2H20.
Yongda (OW)	3669.HK	• (+) Customers in the tier-1/2 cities are less price sensitive, and will stay with dealers' after-sales channel for longer. • (-) Yongda sells "warranty extension" products as an agent, and thus salespersons might have less incentive to push for sales. • (-) Customers for mass-market brands might switch to independent repair stores, given older store age.	• BMW new car pricing. • Shanghai license plate quota for 2021. • After-sales recovery pace in 2H20.
Zhengtong (EW)	1728.HK	• (+) The potential investment by the state-owned Xiamen ITG, if successful, will improve Zhengtong's working capital and restore normal operations. • (-) Zhengtong's new car volume declined in 2019, and we expect its volume to remain weak in 1H20, which will hurt after-sales growth in the future. • (-) Zhengtong didn't expand dealer network actively, and may underperform peers who have been gaining market share via acquisitions.	• Ability to pay off debt installments. • BMW new car pricing. • After-sales recovery pace in 2H20.
Baoxin (EW)	1293.HK	• (+) Baoxin has ~90% revenue exposure to luxury brands, which bodes well for its after-sales business. • (-) Baoxin's after-sales gross margin declined in 2017-19, and gross profit per store level is lower than Zhongsheng and Yongda, suggesting inferior operating efficiency. • (-) Baoxin didn't expand dealer network actively, and may underperform peers who have been gaining market share via acquisitions.	• BMW new car pricing. • Cost cutting efficiency. • After-sales recovery pace in 2H20.
Cango (EW)	CANG.N	• (+) Cango's aftermarket revenue has shown resilience despite COVID-19 disruption. • (+) Cango can enjoy higher growth potential in the lower-tier cities, where insurance policy sales are not yet well penetrated. • (-) Customers in the lower-tier cities might be more price sensitive and competition among agents will be fierce.	• Progress of launching new types of insurance products. • Number of insurance transactions Cango has facilitated.

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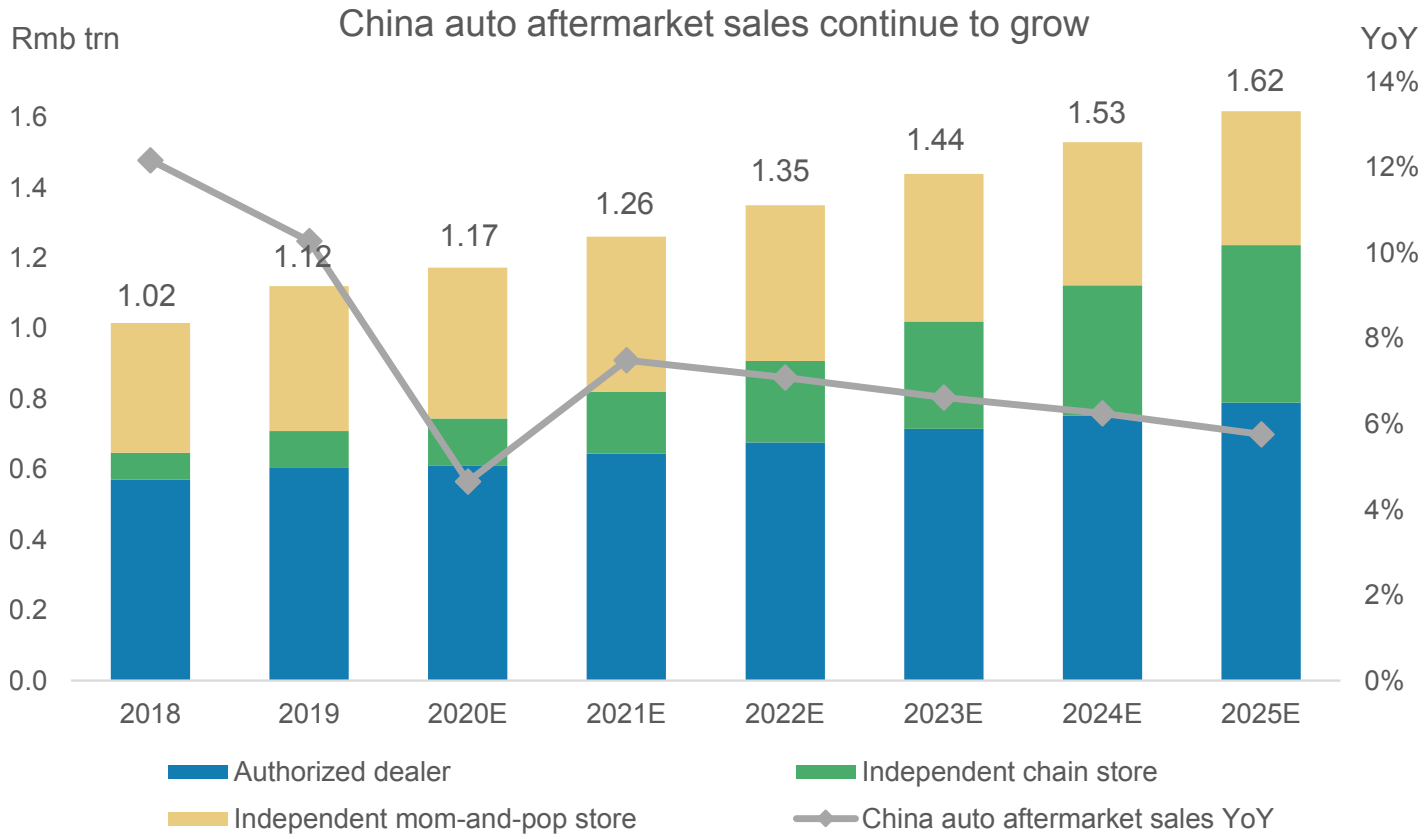
Profit Shifting from New Car Market to Aftermarket

7% CAGR for aftermarket in 2020-25: We believe China's automotive aftermarket sales will grow at a 7% CAGR in the next five years, 2020-2025, outpacing flattish new car sales, and become a profit driver for auto dealers and repair stores by 2025. In China, the auto aftermarket or after-sales services are provided by authorized 4S dealers (4S stands for Sales, Service, Spare Parts and Surveys) and independent channels, and the latter include both chain stores and mom-and-pop stores. Authorized dealer stores have been dominating the aftermarket industry over the past decade, and we expect their dominance to continue in the coming years. Meanwhile, independent chain stores should be able to gain market share, mainly from mass-market dealers and mom-and-pop stores.

Exhibit 9:

China aftermarket sales to grow at 7% CAGR in 2020-25E



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

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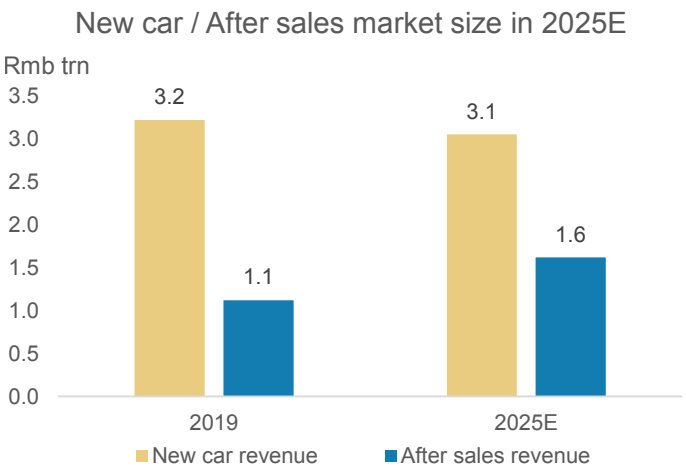
Capturing profit shift: We forecast China's auto aftermarket revenue size to reach Rmb1.6trn by 2025. Although this is only 53% of new car revenue size, thanks to higher margins in the after-sales business, we estimate the profit pool from the aftermarket to be 4x that of the new car distribution market, up from 3x only in 2019. Therefore, we look for increasing revenue opportunities from the aftermarket.

Recurring services and parts demand: Aftermarket includes services (for maintenance, quick repair, and accident car repair) and parts (for accessories and replacement), and also includes auto insurance, auto finance, and used car sales in a broader sense. We mainly focus on services and parts in this report. While a new car sale is a one-time event during a vehicle's life cycle, we expect the demand for services and parts replacement will recur during the life cycle, thus bringing more profit to dealers and repair stores.

Exhibit 10:

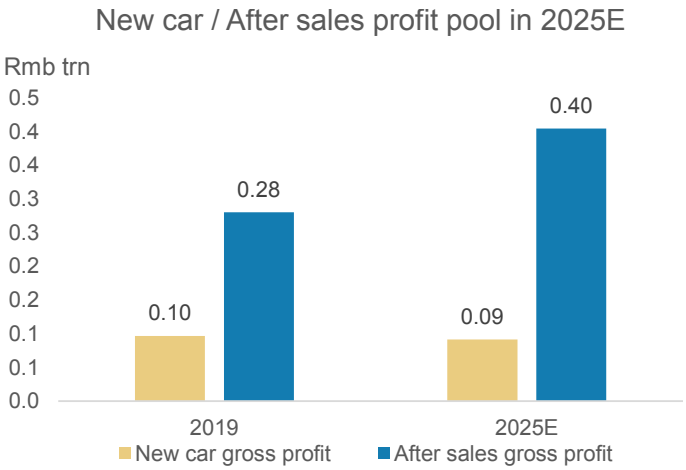
Aftermarket revenue size will be 53% of new car market by 2025...



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

Exhibit 11:

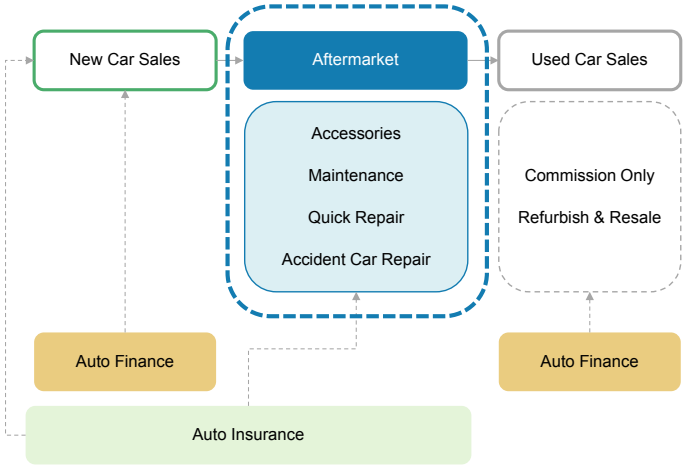
...But we estimate aftermarket profit will be 4x that of the new car market



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

Exhibit 12:

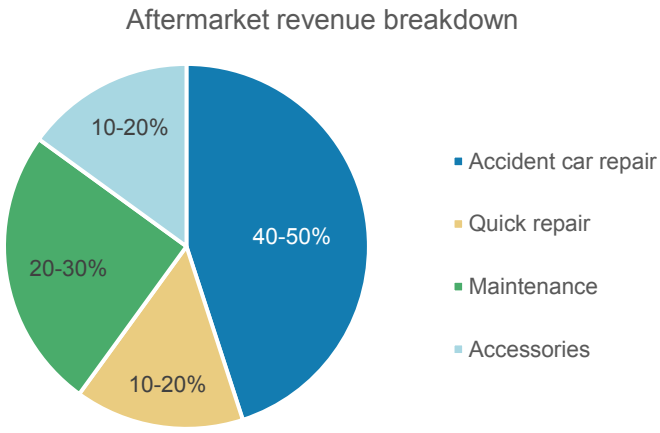
Aftermarket demand recurs during a vehicle's life cycle



Source: Morgan Stanley Research

Exhibit 13:

Aftermarket revenue includes services and parts (2020E)



Source: Company data, Morgan Stanley Research

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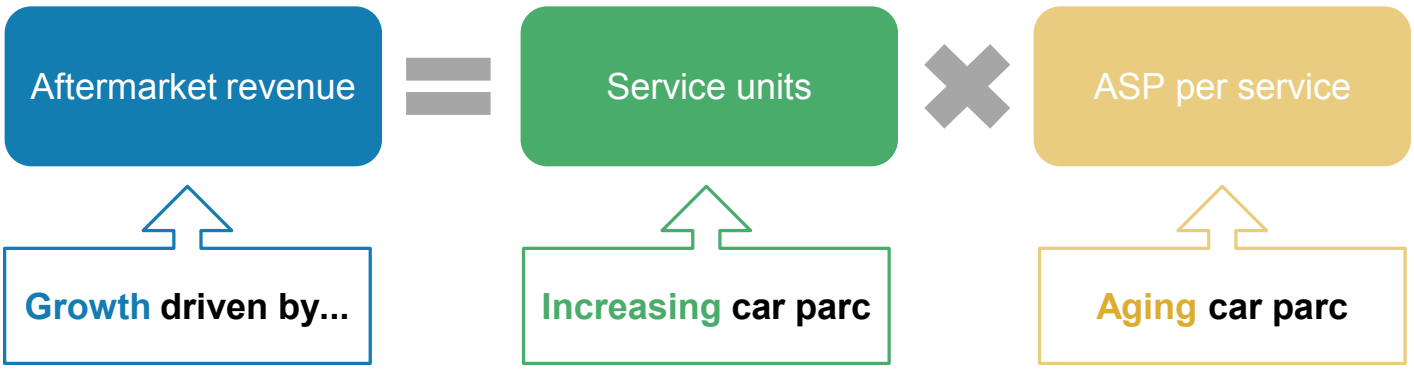
Aftermarket growth will be supported by an increasing and aging car parc, in our view.

Exhibit 14:

Growth drivers for aftermarket revenue



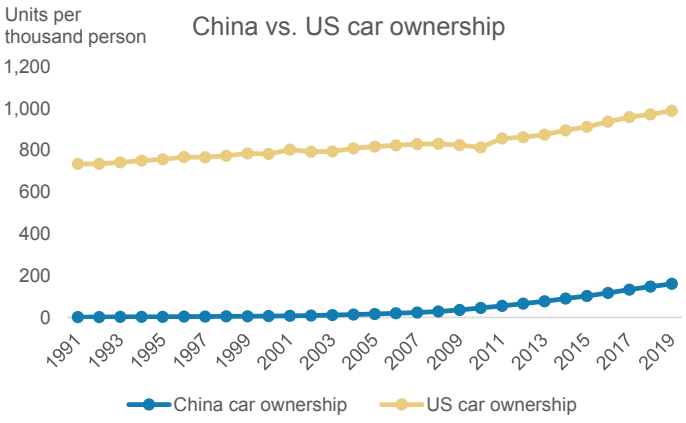
Source: Morgan Stanley Research

Increasing car parc: While China's new car sales volume has peaked in 2017, the car parc keeps growing at a 10% CAGR in 2017-19. We believe China's car parc is still far from saturation, and this is supported by China's under-penetrated car ownership, as well as the US's historical development trend. According to World Bank, by 2019, car ownership was 173 units per thousand people in China, well below the US' 837 units per thousand people. Also, while US new car sales have flattened out over the past 20 years, their total car parc kept growing during the same period.

This implies that China's car parc could continue to grow despite little growth in new car sales. Even considering the impact from shared mobility, which reduces the demand for the car parc, we expect China's car parc will continue to grow at a 6% CAGR in 2020-25.

Exhibit 15:

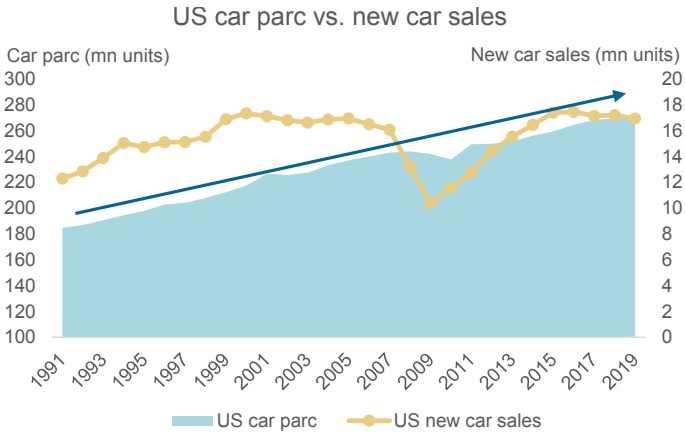
China's car ownership is well below that of the US



Source: China Ministry of Transport, China National Bureau of Statistics, US Federal Highway Administration, US Census Bureau, Morgan Stanley Research

Exhibit 16:

US car parc has continued to grow despite flattish new car sales



Source: CAAM, US Bureau of Economic Analysis, Morgan Stanley Research

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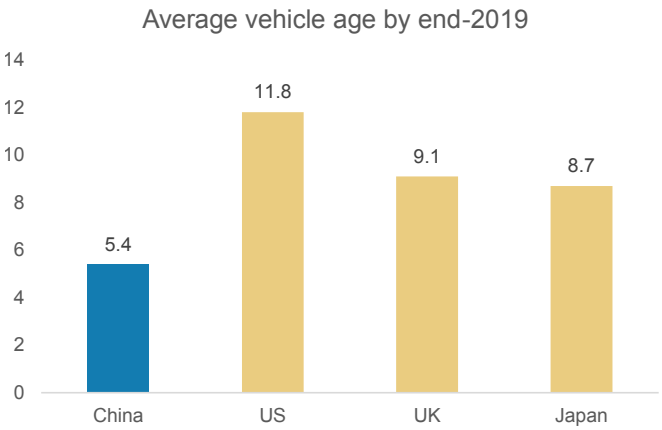
Aging car parc: The average vehicle age in China was only five years by the end of 2019, per our estimate, below the US at 12 years and Japan at nine years. When the vehicle ages, spending on parts repair and replacement increases, especially starting from the fourth year of its life cycle. Take the BMW 3-series as an example; based on our checks of its warranty extension plan offered by the OEM, pricing for a two-year warranty extension plan (i.e., for the fourth to fifth years) is Rmb6-7K when purchasing it within one year of a new car purchase.

However, to extend the warranty plan for another two years, the pricing more than doubles to Rmb15-16K, due to a higher break-down possibility.

This creates revenue opportunities for not only authorized 4S dealers (usually within the insurance coverage) but also independent repair stores (usually outside the insurance coverage).

Exhibit 17:

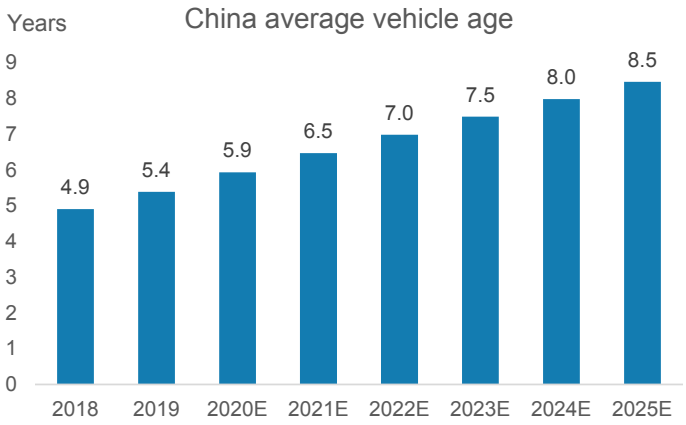
China's average vehicle age is younger than that of the US, the UK and Japan



Source: CPCA, US Department of Transportation, UK Department for Transport, Japan Automobile Inspection & Registration Information Association, Morgan Stanley Research

Exhibit 18:

We expect China's average vehicle age to reach 8.5 years by 2025



Source: CPCA, Morgan Stanley Research (E) estimates

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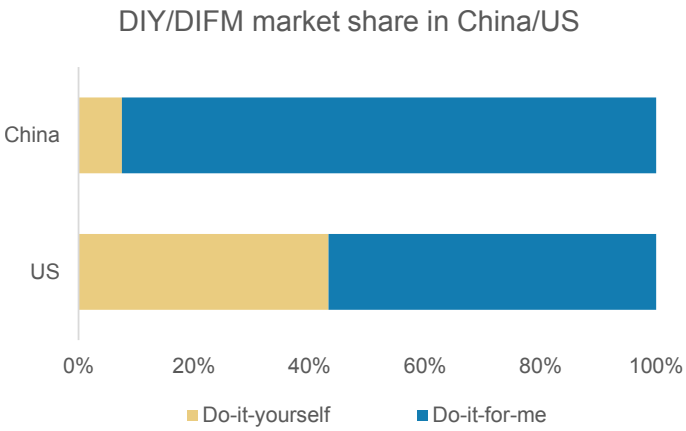
Who Will Benefit from the Growing Aftermarket?

Disruptive market share shifts in the aftermarket: After-sales needs in China are mainly served through authorized 4S dealers and independent repair shops. While DIY sales account for 40-45% of the aftermarket in the US, we expect the DIFM (do-it-for-me) business model will prevail in China's aftermarket. The demand for DIFM means that service providers such as dealers and repair shops will still dominate over aftermarket parts retailers in China. Meanwhile, we are expecting to see a disruptive share shift in China's auto aftermarket, as a result of the rapid development of e-commerce and express delivery industries.

Exhibit 19:

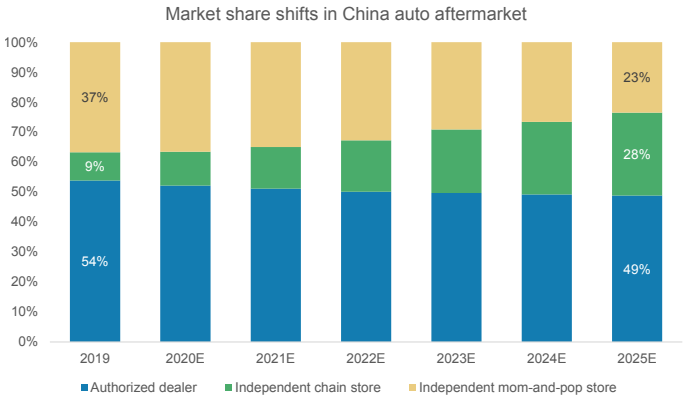
China's auto aftermarket will continue to rely on DIFM channel (2020E)



Source: Auto Care Factbook, Morgan Stanley Research

Exhibit 20:

Dealers and chain stores to dominate in China's auto aftermarket



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

Competitive landscape of China auto aftermarket

Authorized auto dealers – Positive for luxury dealers: As DIFM prevails, we expect authorized dealers to remain the mainstay service provider for the aftermarket, but the impact will diverge – luxury auto dealers will benefit more, thanks to higher segment growth and higher customer retention, while mass-market auto dealers might face intensifying competition from independent repair shops.

In China, OEMs usually provide a three-year warranty with new car sales, and accident car repair costs could be covered by insurance. Therefore, authorized dealers can secure at least the first three years' after-sales revenue for each car sold. In addition, some dealer groups have started offering an after-sales warranty extension insurance plan, either proprietary (if collaborating with insurance companies) or commission-based (if selling OEM or insurance companies' products), further securing another three years (fourth to sixth) of after-sales revenue. In this way, dealers are able to raise the customer retention rate.

For luxury auto dealers, their customers are less price sensitive and therefore likely to stick to the dealers for maintenance and repair services for a longer time. In contrast, customers for mass-market brands might leave dealers after the three-year free period and look for cheaper alternatives. Besides, luxury car sales continue to grow despite a tough industry backdrop, which implies the customer base for the luxury aftermarket will grow at a faster pace than average.

Independent chain repair stores - Positive: This channel used to be fragmented, and most players only focus on their local market, due to constraints on cross-region customer acquisition, logistics and warehousing capabilities. However, thanks to the rapid development of e-commerce and express logistics, some new players are emerging.

- **Harson (traditional chain store):** Harson was founded in 1998 in Guangzhou, as an early mover in the independent repair chain store market. Such traditional chain stores did not rely much on online traffic acquisition, but obtained customers via a stronger local presence than other mom-and-pop repair stores. Harson has 230 service centers in over 130 cities nationwide, and has been collaborating with EV start-ups such as NIO and Xpeng for their after-sales services.

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- **Tuhu (online-to-offline chain store):** Tuhu was founded in 2011 in Shanghai. It started as an online retailer for aftermarket products, including replacement tires, lubricants and other spare parts. Thanks to Tuhu's online customer acquisition, it has expanded network rapidly, to 1.6K workshops and 13K partner stores in over 400 cities. The advantage of such online-to-offline chain store brands is a faster accumulation of a customer base, and a stronger presence nationwide. That said, their business scope is usually limited to the sales of consumables (e.g. tire, lubricants) and quick repair, while the complex repair services (e.g. for accident cars) remain at authorized dealers.
- **Tmall Car / Jing Che Hui (backed by Internet companies):** In recent years, Internet giants including Alibaba, JD, and Suning started to cultivate their own channels for the auto aftermarket business. For example, Tmall Car not only has user traffic sponsored by Alibaba, but also enjoys lower procurement costs thanks to its partner CarZone which specializes in an aftermarket supply chain. Tmall Car was launched in 2019 in Hangzhou, and plans to open 600 offline service centers by the end of 2020. Similarly, JD and Suning can also leverage their user traffic, logistics capability and brand equity to improve the franchisees' profitability. However, challenges for this group of players exist; as later movers into the aftermarket, they need to build a good track record of service quality over time.
- **Che Xiang Jia (backed by SAIC Group):** Che Xiang Jia mainly serves brands under SAIC Group, namely, SAIC-VW, SAIC-GM, SAIC-GM-Wuling, Roewe, Maxus, and so on, as a complement to SAIC's 4S dealerships. While Che Xing Jia can enjoy SAIC's customer base and supply chain resources, it has also limited its exposure to other car brands.
- **TyrePlus (backed by Michelin):** TyrePlus runs a similar business model to Che Xiang Jia, providing mainly Michelin-brand tire replacement. While TyrePlus has a cost advantage when purchasing directly from Michelin, it has also limited its exposure to customers who prefer other tire brands.

Independent mom-and-pop repair stores - Negative: Mom-and-pop repair stores used to dominate the local community because they are convenient and price competitive. However, authorized dealers and repair chain stores are regaining market share from mom-and-pop stores, because: 1) mom-and-pop stores have poorer perception of quality guarantees compared with chain stores, as the latter are usually backed by Internet companies, OEMs, parts makers, and so on, and therefore have better branding; and 2) more car owners will resell their cars as the used car market develops, therefore they will go for authorized channels for maintenance and repair services, to preserve the used car value.

Other aftermarket service facilitators: There are also players who do not provide after-sales services to car owners directly, but leverage their competitive advantage in the 2B supply chain, online traffic direction, and so on, to facilitate the auto aftermarket transactions.

- **Bangbang (backed by PICC):** Bangbang Auto Sales was founded in 2017 by PICC Property and Casualty Company (PICC P&C). The intention for PICC P&C in developing Bangbang was mainly for cost saving rather than revenue generation. As the insurance companies have to pay for the spare parts damaged in an accident, they can reduce payments if they purchase spare parts at a lower cost. In this way, PICC P&C is able to reduce its loss ratio. Bangbang has now collaborated with 3K suppliers and 30K repair stores in over 360 cities.
- **Ping An Auto Owner app (backed by Ping An):** The Ping An Auto Owner app was launched in 2014, and has surpassed 100mn registered users and 25mn monthly active users. The intention for Ping An in launching this app is to capture the large growth potential from online services for car owners. The app connects car owners to dealers and other auto service providers; this not only provides more convenient services to Ping An's customers, but also collects big data on car usage behavior, which can be used to optimize product offerings in the future.
- **Autozi (cloud platform):** Autozi was founded in 2010, and is a cloud platform provider for the auto aftermarket, to facilitate spare parts procurement, logistics, supply chain financing and so on. It connects parts makers to dealers / repair stores, and makes the B2B procurement more transparent. That said, Autozi still needs to compete with traditional intermediaries for the supplier and customer resources.

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Exhibit 21:

Competitive landscape in the China auto aftermarket

Channel	Company	Nature	Market positioning	# stores	B2B supply chain	B2C parts & services	Online traffic
Authorized 4S dealer	Zhongsheng Group	Dealer store	**Advantages:** - Can retain customers by warranty extension products (双保无忧) - Can acquire customers upon new car sales - Capable of complex repair services **Disadvantages:** - Average store age relatively high at 8 years - More expensive than independent channels	360 by end-2019	Y	Y	
	Meidong Auto	Dealer store	**Advantages:** - High growth potential for after-sales thanks to young store age - Can acquire customers upon new car sales - Capable of complex repair services **Disadvantages:** - Customers in lower-tier cities might be price sensitive	58 by end-2019	Y	Y	
Independent chain store	Harson (华胜)	Traditional chain store	**Advantages:** - Price competitive over 4S dealers - Better branding than mom-and-pop repair stores **Disadvantages:** - Local markets only due to limited online presence	230	Y	Y	
	Tuhu (途虎)	O2O chain store	**Advantages:** - Online channels (app/website) enable faster customer acquisition, together with nationwide offline presence - Established since 2011, longer track record than other O2O brands **Disadvantages:** - Limited scope to common parts and simple repair services	Target 2000 workshops by end-2020; Over 13K partner stores	Y	Y	Y
	Tmall Car (天猫养车)	Backed by Internet giant (Alibaba)	**Advantages:** - Customer traffic sponsored by Tmall - Logistics synergy with Alibaba **Disadvantages:** - Established in 2019, shorter track record for service quality	Target 600 by end-2020; Over 28K partner stores	Y	Y	Y
	Jing Che Hui (京车会)	Backed by Internet giant (JD)	**Advantages:** - Customer traffic sponsored by JD - Logistics and supply chain synergy with JD **Disadvantages:** - Less customer base than Tmall	Target 3000 by end-2020 (1000 by end-1H20); Over 15K partner stores	Y	Y	Y
	Che Xiang Jia (车享家)	Backed by OEM (SAIC)	**Advantages:** - Authorized by OEM, for multiple brands under SAIC Group - Complement to SAIC's 4S dealerships **Disadvantages:** - Limited customer/brand exposure	2500 by 2019	Y	Y	Y
	TyrePlus (米其林驰加)	Backed by parts maker (Michelin)	**Advantages:** - Authorized by Michelin - Price competitive over 4s dealers **Disadvantages:** - Little exposure to other brands than Michelin	1500 by 2019	Y	Y	
Independent mom-and-pop store		Fragmented	**Advantages:** - Price competitive over 4s dealers **Disadvantages:** - No quality guarantee - May affect used car value upon resale			Y	
Other aftermarket service facilitators	Bangbang (邦邦汽服)	Backed by insurance company (PICC)	**Advantages:** - Self-owned B2B supply chain services to reduce intermediaries, for PICC P&C's cost saving **Disadvantages:** - Tough competition to enter dealer and repair stores' supply chain	N.A.	Y		
	Ping An Auto Owner (平安好车主)	Backed by insurance company (Ping An)	**Advantages:** - Can capture car usage / maintenance / repair data to improve pricing and claim processes - Accumulated driving behavioral data can prepare for the potential launch of Usage Based Insurance (UBI) **Disadvantages:** - May face competition from Internet companies if they launch similar apps	N.A.			Y
	Autozi (中驰车福)	Supply chain cloud platform	**Advantages:** - "Asset light" business model **Disadvantages:** - Tough competition from other traditional intermediaries for the spare parts B2B transactions	N.A.	Y		

Source: Company data, Morgan Stanley Research

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Debate #1: Can China Auto Dealers Continue to Grow the Aftermarket Business?

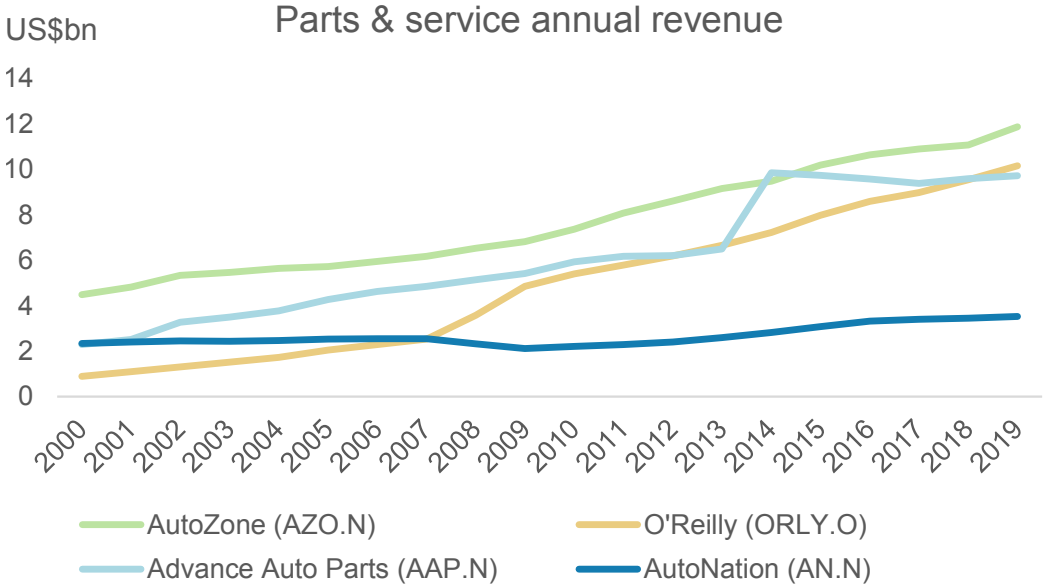
Market view: No. Authorized dealers in China will face fierce competition from an increasing number of independent repair stores, and thus lose market share quickly. In the US, independent aftermarket parts retailers have expanded rapidly in the past 20 years and gained market share from auto dealers. China auto dealers may face similar challenges.

Our view: Yes, for luxury car dealers. While customers for mass-market brands might switch to independent channels after the free service period, we believe luxury car dealers in China can continue to enjoy solid growth from their aftermarket business, supported by higher customer retention, an extended warranty period, and the motivation to preserve used car value.

US auto dealers face competition from independent parts retailers... In the US, as the auto aftermarket grew and the car fleet aged over the past 20 years, independent parts retailers like AutoZone (AZO.N), O'Reilly (ORLY.N), and Advance Auto Parts (AAP.N) expanded rapidly and gained market share from auto dealers over time. AutoZone, the largest US parts retailer in terms of 2019 sales, registered 5% revenue CAGR in 2000-19, while the second largest player, O'Reilly, registered 14% revenue CAGR in 2000-19. Meanwhile, AutoNation, the largest US auto dealer group, delivered 2% revenue CAGR for its parts & services business, lower than the top parts retailers'.

Exhibit 22:

US independent parts retailers grew faster than auto dealers in 2000-19



Source: Company data, Morgan Stanley Research

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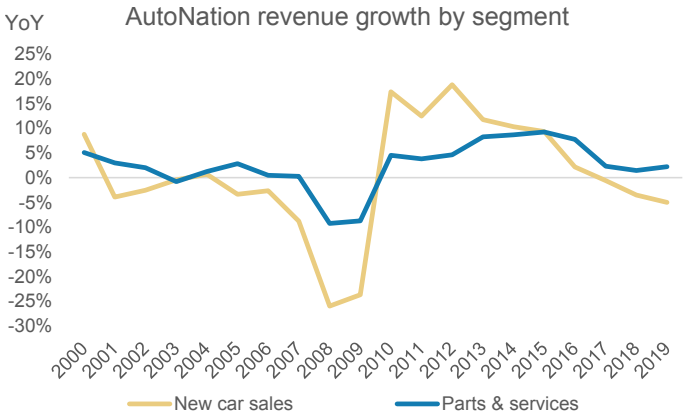
...Yet still outperform the new car market: From the other perspective, auto dealers' growth in parts & services is more resilient than in the new car business, especially during the industry downturn, thanks to the steady growth of the US aftermarket and industry consolidation among US dealerships. Take AutoNation as an example; while its new car sales growth has been fluctuating, parts & service growth helped to smooth out the volatility. Further, AutoNation's parts & service business contributes an increasing portion of profit over time, which helps to drive up the dealer's earnings growth.

The dynamics will differ in China: In China, the auto aftermarket has been dominated by authorized dealers and independent mom-and-pop repair stores. Independent parts retailers haven't been established, as Chinese customers still prefer DIFM over DIY. While we expect a few Internet/OEM backed chain stores to stand out and consolidate mom-and-pop stores, we believe luxury dealers in China can continue to enjoy solid growth from their aftermarket business, supported by higher customer retention, an extended warranty period, and greater intention to preserve used car value.

(1) Higher customer retention: Customers for luxury cars are less price sensitive, and they are willing to pay for a certain premium at the dealer store, to save the time of searching for a cheaper alternative. According to our checks with dealers, the customer retention ratio for their luxury brands is around 85% after three years, higher than the 75% for mid-to-high-end brands. After five years, the customer retention ratio for luxury brands is 60%, higher than the 50% for mid-to-high-end brands.

Exhibit 23:

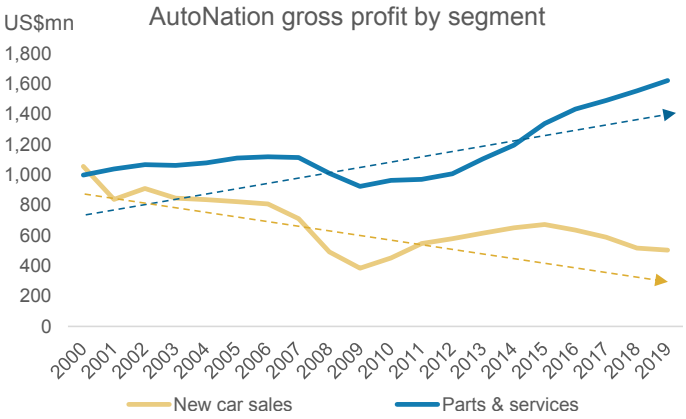
AutoNation's parts & services revenue growth is more resilient



Source: Company data, Morgan Stanley Research

Exhibit 24:

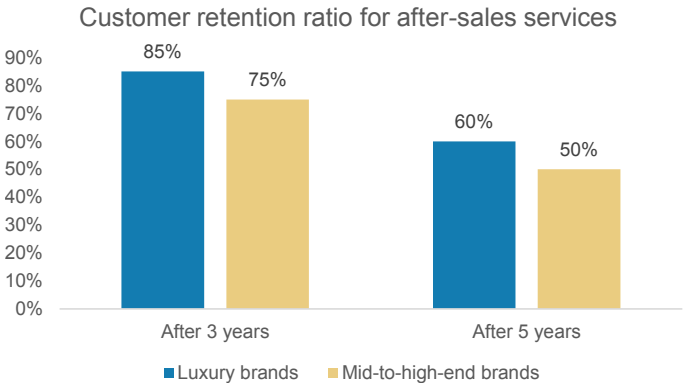
The growing profit from parts & services business helps to boost dealers' earnings growth



Source: Company data, Morgan Stanley Research

Exhibit 25:

Luxury brands enjoy a higher customer retention ratio



Source: Company data, Morgan Stanley Research

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(2) Extended warranty period: If the dealer can extend the product warranty period from 2-3 years to 5-6 years, it can retain the customer for a longer time, and therefore generate more revenue from the after-sales services. Many dealers earn commission income on OEM's "warranty extension" products, while Zhongsheng sells its proprietary "warranty extension insurance plans".

Zhongsheng started to sell the new "warranty extension" products from 2Q19 (and therefore will see 12 months' profit contribution in 2020, versus 9 months' contribution in 2019), and is collaborating with insurance companies to launch this product. Compared with previous similar products which were launched by Zhongsheng on its own, it now bears little liability risk on future repair/maintenance costs, as the insurance company will take care of that. Therefore, Zhongsheng will not incur unexpected losses from previously sold warranty products. Also, compared with purely earning commission income on OEM's "warranty extension" products, Zhongsheng can share higher profit as it leads the product launching and branding.

(3) Greater intention to preserve used car value: As the used car market in China develops over time, more and more car owners will consider reselling their car after a few years, we believe. To preserve the car value upon resale, a regular record of maintenance activities is needed. Therefore, customers will prefer to go to authorized dealers and maintain a good track record.

Exhibit 26:

Zhongsheng's new "warranty extension" product enjoys lower risk and higher profit

Type	ZS's new "warranty extension" product	ZS's old "warranty extension" product	Sell OEM's "warranty extension" products
Nature	Collaborate with insurance company, but launch under Zhongsheng's branding	Design, launch, and bear liability by Zhongsheng itself	Act as agent to sell OEM's products
Profit	High, share profit with insurance company	High, book profit all by itself	Low, commission income only
Risk	Low, future liability taken by insurance company	High, future liability taken by Zhongsheng	Low, future liability taken by OEM

Source: Morgan Stanley Research

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Debate #2: Will the Aftermarket Disappear in the EV Era?

Market view: Yes. Because EVs have a modularized and thus simpler structure than ICE cars, and most software updates can be done via the over-the-air (OTA) channel, there is little demand for after-sales services.

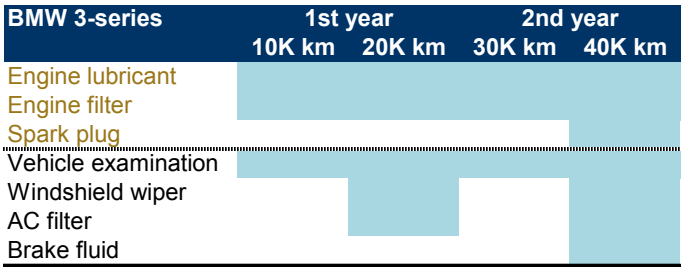
Our view: Not really. Certain demand, for example, accident car repairs and re-spraying, remain with EVs, and this contributes 40-50% of after-sales revenue. As we expect the ICE parc to keep growing in the next decade, and EV to account for only 20% of the car parc by 2030, we think total aftermarket demand will continue to grow in 2020-30.

Maintenance and quick repair demand from EVs will shrink: Compared with ICEs, which have a complex powertrain system, EVs have a simpler structure – no engine, and many components can be modularized. Also, some minor bugs, which need technicians to fix in person for ICE cars, might be solved by software updates via the over-the-air (OTA) channel on EV cars. Therefore, maintenance and quick repair services, which account for 30-50% of after-sales demand on ICEs, could shrink notably on EVs. On the other hand, demand for electric powertrain related maintenance, e.g. electric motor and battery coolants, could rise in EVs.

We compare the maintenance items on the BMW 3-series with the Tesla Model 3. For the BMW 3-series, it is suggested to have maintenance twice a year, and to have the engine lubricant and engine filter changed every half year or every 10K km driving distance. In contrast, for the Tesla Model 3, it is suggested to have maintenance once a year, and the battery coolant only needs to be changed every four years. For other maintenance items such as the replacement of the windshield wipers, air conditioner (AC) filter, brake fluid, and so on, it is similar for both BMW and Tesla. Per our estimates, the total maintenance cost for the BMW 3 series for the first 40,000 km or two years is around Rmb7-8K, compared with Rmb4-5K for the Tesla Model 3.

Exhibit 27:

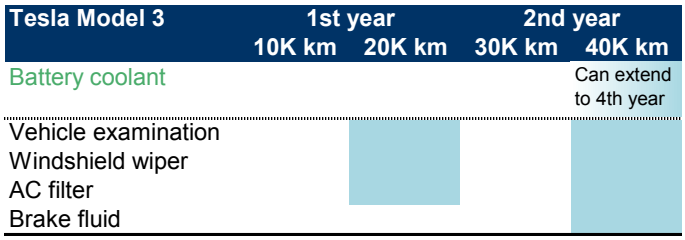
BMW 3-series maintenance items for the first two years



Source: Company data, Morgan Stanley Research

Exhibit 28:

Tesla Model 3 maintenance items for the first two years



Source: Company data, Morgan Stanley Research

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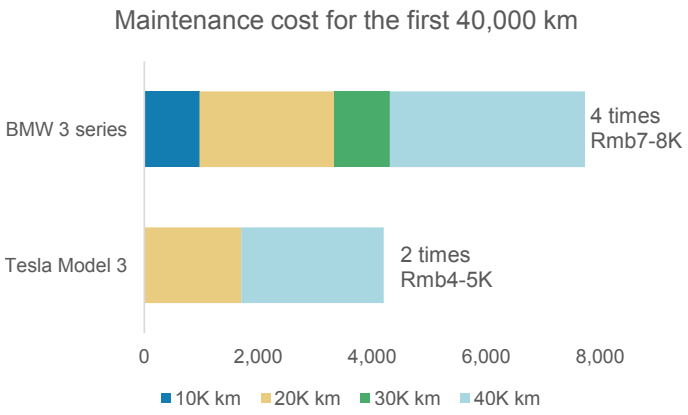
But accident repair and accessories demand remains: Our talks with dealers suggest that certain demand, for example, for accident car repairs and re-spraying, remains with EV cars, and this contributes 40-50% of after-sales revenue. Accessories sales, which account for 10-20% of after-sales demand, should also remain for EVs. Taking less maintenance and quick repair demand into consideration, we estimate the total after-sales cost would be 30% less on EVs versus ICEs.

ICE parc will continue to grow in the next decade: We forecast China EV sales to rise by a 24% CAGR in 2020-30, and its parc penetration to reach only 20% by 2030. Meanwhile, even assuming flattish ICE sales, we estimate the ICE parc will continue to grow by a 3% CAGR in 2020-30, which bodes well for aftermarket growth.

Exhibit 29:

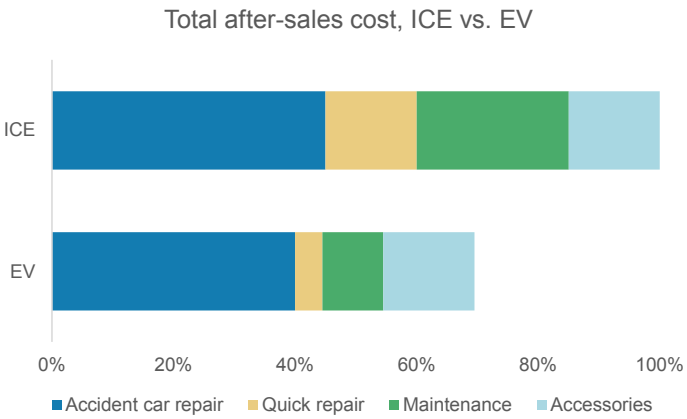
Maintenance cost for EVs is only 50-60% that of ICE cars



Source: Tesla, BMW, Morgan Stanley Research

Exhibit 30:

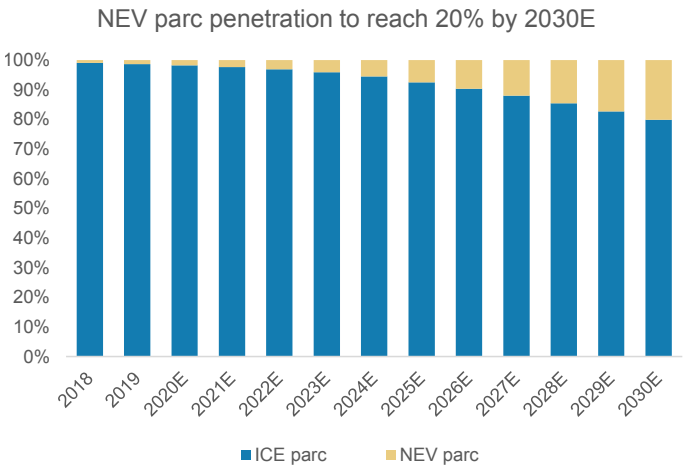
Total after-sales cost for EVs is 30-35% less than that for ICEs



Source: Company data, Morgan Stanley Research

Exhibit 31:

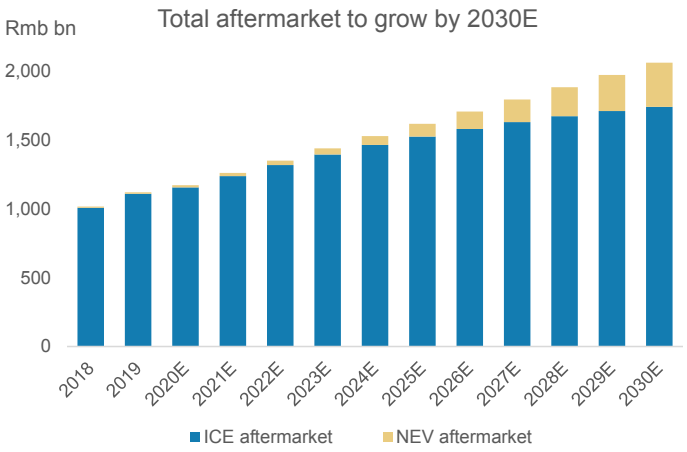
NEV parc penetration will remain low by 2030E



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

Exhibit 32:

ICE and total aftermarket will continue to grow by 2030E



Source: CAAM, Ministry of Transport, Morgan Stanley Research (E) estimates

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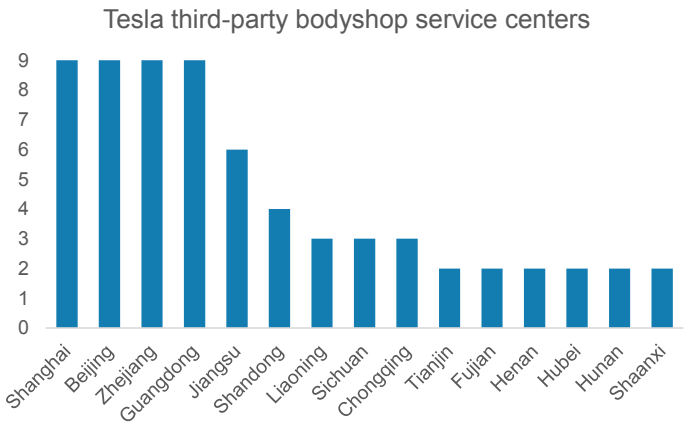
Tesla/EVs still rely on traditional aftermarket players: EV startups are already selling new cars directly online, which does not involve third-party dealers. We think this will be a challenge for luxury ICE dealers when EV penetration ramps up. However, EV startups still rely on traditional dealers to provide accident repair services. Currently in China, Tesla partners with Porsche, Maserati, Alfa Romeo, imported VW dealers and independent repair stores for bodyshop services. Tesla had 80 third-party bodyshop service centers by the end of 1H20, and half are in Shanghai, Beijing, Zhejiang, Guangdong and Jiangsu, where the majority of Tesla demand comes from. Similarly, other EV start-ups also outsource bodyshop services to third-party repair stores, which usually serve multiple EV/ICE brands in the same store. For example, Shanghai Zhenneng Auto Services is an authorized repair store for both Tesla and a Chinese EV startup. We think such partnerships provide an opportunity for quality dealer groups to take part in the EV after-sales service market in future.

Exhibit 33:

Tesla had 80 bodyshop service centers in China by end-1H20



Source: Company data, Morgan Stanley Research

Exhibit 34:

Indoor view of Tesla's bodyshop service center

Source: Company data

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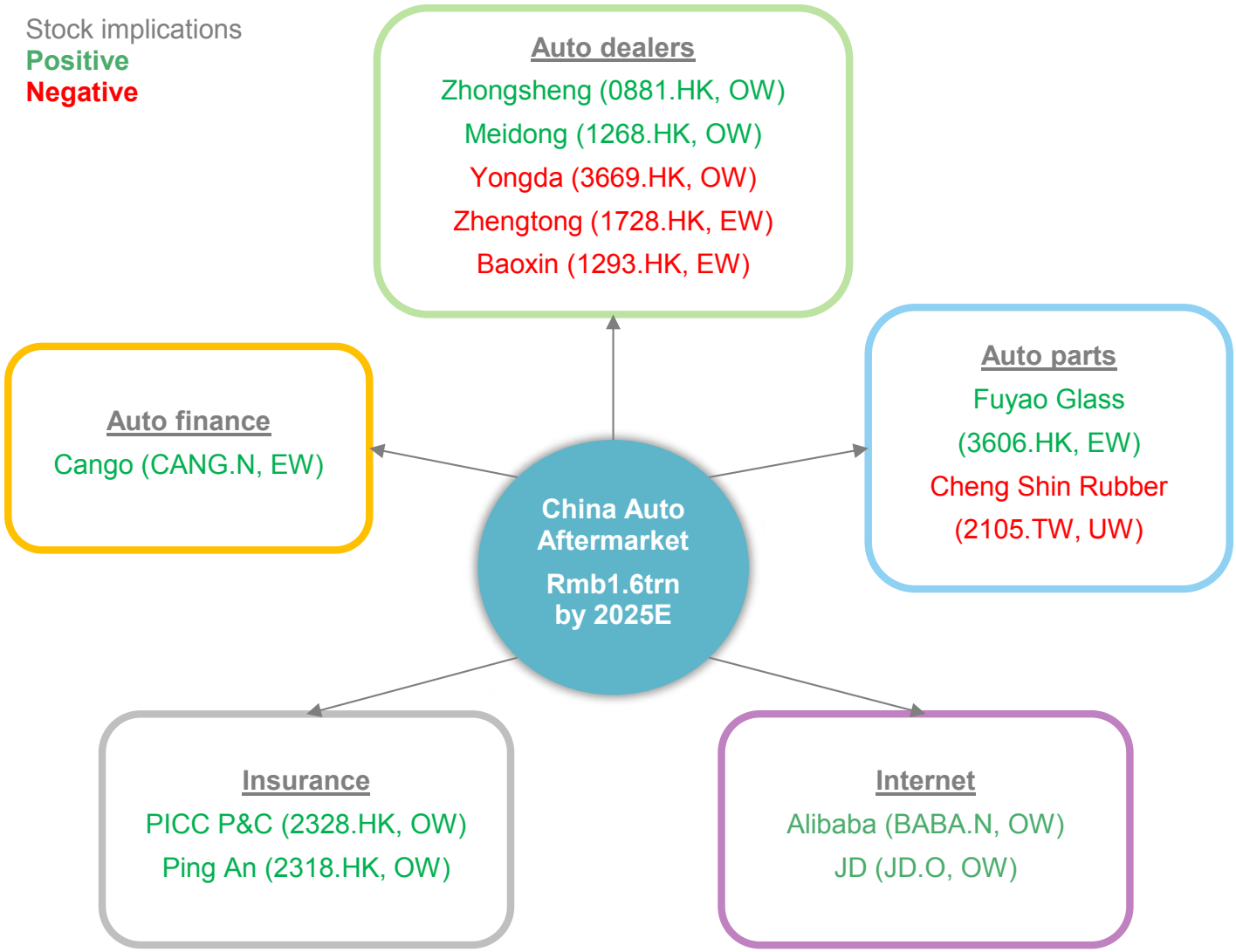
Stock Implications

Exhibit 35:

Potential winners and losers amid China's growing auto aftermarket



Source: Morgan Stanley Research

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Auto dealers

Zhongsheng (0881.HK, OW)

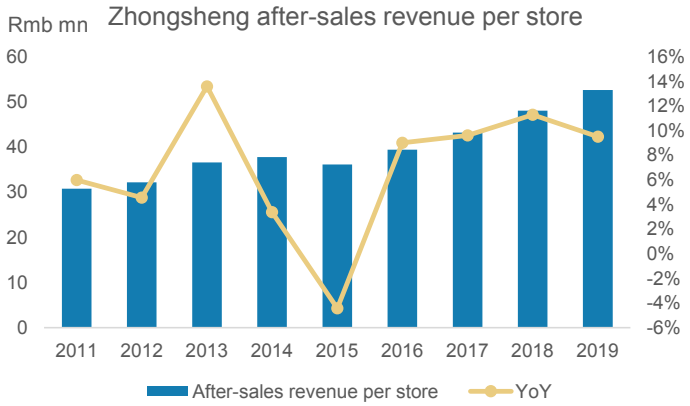
Higher customer retention, growing used car business: The growth for Zhongsheng's after-sales will come from its active effort to retain customers, improve same-store growth, and develop the used car business. Zhongsheng's after-sales revenue grew by a 25% CAGR in 2016-19, with after-sales revenue per store up by a 10% CAGR. We expect Zhongsheng will continue to deliver solid growth for its after-sales business, because: 1) its warranty extension insurance products can help to retain customers for another 3-4 years; and 2) it has the capability to improve the operating efficiency of acquired stores to match the group average level.

In addition, Zhongsheng has been developing its used car business, and its used car sales volume rose 30% YoY to 71K units in 2019 (versus 456K unit new car sales). Starting from May 1, 2020, the Chinese government has cut the value-added tax rate on used car transactions to 0.5% from 2%, which can improve used car dealers' working capital and therefore promote the used car market. Zhongsheng enjoys higher margins from used car sales than new cars, and we expect its used car business to contribute 5-10% earnings growth in 2020.

Reiterate OW: We believe Zhongsheng can continue to outperform peers, supported by its better brand mix (i.e., Lexus, Mercedes, Toyota), solid after-sales growth, and further expansion into lower-tier cities. Zhongsheng's acquisition of eight dealer stores in July should not only strengthen its position in Mercedes dealerships, but also expand its presence in lower-tier cities for further addressable market. We expect operational synergies after consolidation, supported by Zhongsheng's lower financing cost. Zhongsheng's valuation premium is justified by its better brand mix, stronger balance sheet and better access to funding.

Exhibit 36:

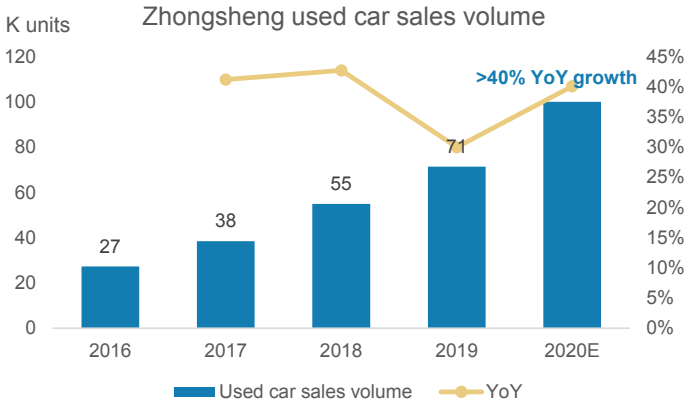
Zhongsheng's after-sales revenue per store grew by a 10% CAGR in 2016-19



Source: Company data, Morgan Stanley Research

Exhibit 37:

We expect Zhongsheng to deliver over 40% YoY volume growth for its used car sales in 2020



Source: Company data, Morgan Stanley Research (E) estimates

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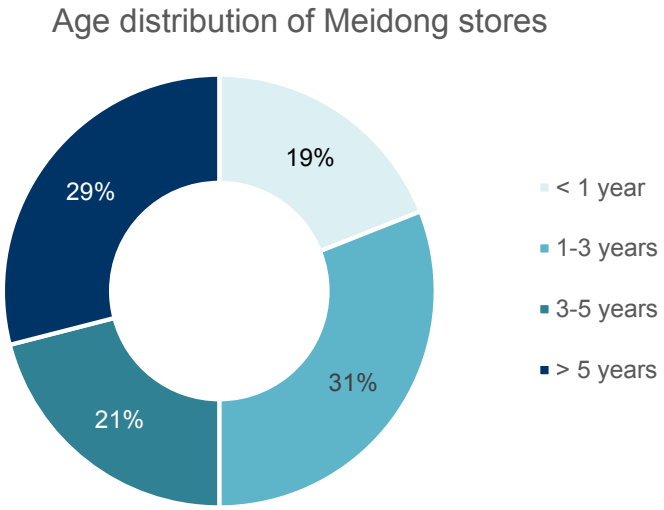
Meidong (1268.HK, OW)

Younger stores, higher growth potential: Growth for Meidong's after-sales will come from its rapid customer base expansion as a younger dealer group. Meidong's average store age is only four years and its median store age is three years, compared to peers at six to eight years. In 2019, Meidong's after-sales revenue per store was Rmb34mn, lower than Zhongsheng's Rmb53mn and Yongda's Rmb51mn. This could be partially due to Meidong's smaller store scale in the lower-tier cities. However, Meidong's new car sales per store have reached 85-90% of Zhongsheng and Yongda's level, while Meidong's after-sales per store is only 60-65% that of Zhongsheng and Yongda. This implies Meidong has further room to improve its after-sales business when the stores mature, in our view. Thanks to Meidong's younger store age and higher new car growth, it should be able to expand its customer base rapidly, which should convert to future after-sales growth.

Reiterate OW: We cut Meidong's 2020 earnings estimate by 5%, to reflect lower-than-expected repair demand due to fewer miles travelled amid Covid-19 lockdown. However, we raise Meidong's 2022 earnings estimate by 2%, to reflect higher customer retention rate, on the back of Meidong's determination to improve after-sales business in the future. Therefore, we raise Meidong's price target to HK$27 (from HK$25). We believe Meidong's valuation premium is justified by its growth visibility, better margins and potentially EPS-accretive M&A.

Exhibit 38:

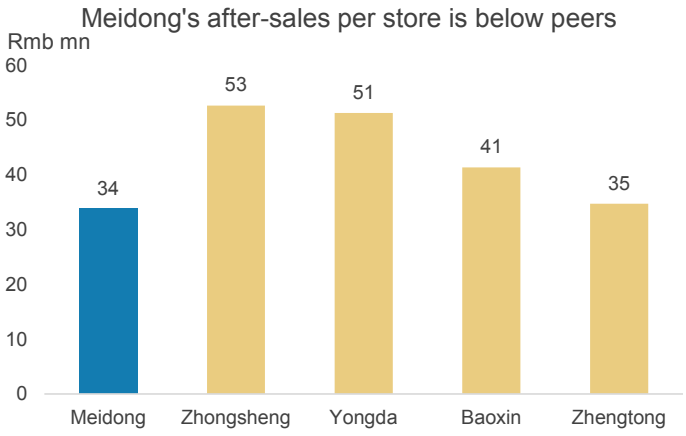
Meidong's average store age is only four years



Source: Company data, Morgan Stanley Research

Exhibit 39:

Meidong's after-sales per store has room to grow



Source: Company data, Morgan Stanley Research

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Yongda (3669.HK, OW)

Tougher competition in mass-market after-sales: Although Yongda mainly sells luxury brands, we expect its mass-market brand dealers to face intensifying competition from independent repair chain stores as vehicles age. Yongda sells "warranty extension" products as an agent (vs. Zhongsheng's proprietary product), and therefore, salespeople might have less incentive to push for such sales. In addition, Yongda has 15-20% revenue exposure to brands under SAIC Group, such as SAIC VW, SAIC GM Chevrolet / Buick / Cadillac, whose customers might switch to Che Xiang Jia, the independent repair chain store backed by SAIC.

We lower our 2020-22 earnings estimates for Yongda by 6-11%, to reflect slower-than-expected sales recovery in mid-to-high-end brands after COVID-19, as well as lower after-sales growth, 2021-22, from 18% to 15%, as a result of tougher competition from independent repair chain stores (Che Xiang Jia, in particular). We also factor in the 6.5% EPS dilution from the 120mn shares placement in June 2020. Therefore, we cut Yongda's price target by 17%, to HK$10 (from HK$12).

Remain OW: We remain Overweight on Yongda, as we believe it will benefit from BMW model upcycle and Shanghai's license quota relaxation this year.

Baoxin (1293.HK, EW)

Stagnant network expansion will hurt future aftermarket growth: Although Baoxin has around 90% new car revenue exposure to luxury brands (mainly BMW and JLR), it didn't expand its dealer network aggressively in 2017-19. Therefore, we expect it will underperform Zhongsheng, Meidong and Yongda in after-sales growth in the coming years, because the latter three can enjoy extra growth from market share gain, while Baoxin would mainly rely on same-store growth. Half of Baoxin's dealer stores are over 10 years old, and we expect their customers will likely go for independent after-sales channels, if their cars are beyond insurance coverage periods. On the positive side, Baoxin has launched "warranty extension insurance plans" from early 2020, which could partially improve customer retention rates.

We lower our 2020-22 earnings estimates for Baoxin by 14-16%, to reflect slower-than-expected recovery of JLR new car sales in 1H20 and, as a result, a lower after-sales contribution from JLR brands in the next few years. Meanwhile, we assume higher medium-term growth, from 3.0% to 3.5%, to reflect higher after-sales growth in the longer term, supported by "warranty extension insurance plans". Therefore, we keep Baoxin's price target unchanged at HK$1.3.

We remain Equal-weight on Baoxin. Although Baoxin should benefit from BMW model upcycle this year, its earnings growth will be constrained by weak JLR sales and a high finance cost.

Zhengtong (1728.HK, EW)

Wait for cash flows to improve: We think a priority for Zhengtong could be to improve its cash flows. On 24 July, Zhengtong announced plans to defer repayment of a third installment of a loan to 19 January 2021 (from 20 July 2020), which we think suggests Zhengtong may have tight working capital amid a challenging operating environment.

On 31 July 2020, Zhengtong announced that its controlling shareholder, Joy Capital (owned by the Chairman), has entered a memorandum of understanding with Xiamen ITG (a state-owned business group under the Xiamen Government), to sell a 29.9% stake to the latter. If the sale were to take place, Joy Capital's stake would be reduced to 21.4% from 51.3%, and Xiamen ITG would become the largest shareholder.

We believe this would ease market concerns around Zhengtong's debt repayment risk in the near term, given ITG's background and financial resources. ITG should be able to help Zhengtong meet its upcoming payment obligations. That said, we think it will take time for Zhengtong's operations to improve, and its dealers may need to take additional steps to attract customers back, for example, by offering discounts on after-sales services, to compensate customers who may have ordered a car but have had to wait longer than expected to receive the car.

We lower our 2020-22 earnings estimates for Zhengtong by 23-26%, to reflect lower-than-expected new car sales in 1H20. Due to tight working capital, Zhengtong's dealers are likely to sell fewer cars. As a result, dealers could receive fewer OEM rebates if they miss their sales targets. Therefore, we expect Zhengtong's earnings to decline 12% YoY in 2020, because of operating deleverage. We also factor in the 10% EPS dilution from the 245mn share placement in July 2020. Meanwhile, we assume higher medium-term growth, from 3% to 5%, to reflect higher new car growth after the operations are returned to normal. Therefore, we cut Zhengtong's price target by 15% to HK$1.1 (from HK$1.3).

We remain Equal-weight on Zhengtong. Zhengtong's share price has dropped 62% YTD (vs. the HSI down 13%), largely pricing in the debt repayment risk. We think the potential investment by the state-owned Xiamen ITG, if successful, would improve Zhengtong's working capital and restore normal operations.

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Auto finance

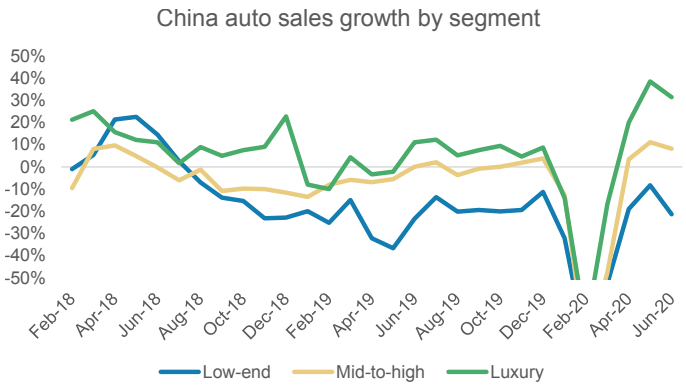
Cango (CANG.N, EW)

More patience needed for mass-market car sales to recover: Cango is a leading auto transaction service platform in China that connects dealers, financial institutions and car buyers. Cango mainly facilitates auto financing transactions for non-4S dealers in lower-tier cities. By the end of 1Q20, Cango covered 45,688 dealers, down 7% QoQ. As at the end of 2019, 81% of Cango-covered dealers were non-4S dealers and 72% were in lower-tier cities. We expect mass-market brand car sales to continue underperforming the overall industry, which would put pressure on Cango's auto loan applications and transactions. In 1H20, lower-end segment (defined as ASP below Rmb100K) car sales declined 35% YoY, mid-to-high-end segment (defined as Rmb100-300K) car sales declined 17% YoY, while luxury segment (defined as ASP above Rmb300K) car sales remained flat YoY. This is also reflected in Cango's 1Q20 result, as its loan facilitation revenue dropped 49% YoY to Rmb120mn in 1Q. According to management, the auto recovery has been much slower than expected in 2Q in lower-tier cities.

Aftermarket revenue resilient: Cango's after-market revenue rose 23% YoY to Rmb49mn in 1Q20, despite disruption from COVID-19. Cango provides aftermarket facilitation services to car buyers, which currently mainly involves facilitating the sale of insurance policies and offering anti-theft assurance services. Cango is also exploring further opportunities in the aftermarket, such as additional types of insurance, extended warranties, car customization, maintenance and repair. In 1Q20, Cango facilitated 11K car insurance transactions, up 3% QoQ. Since car insurance policy sales can be annual and recurring, we believe Cango's aftermarket business will contribute an increasing portion to total revenue, when the vehicle population / customer base increases.

Exhibit 40:

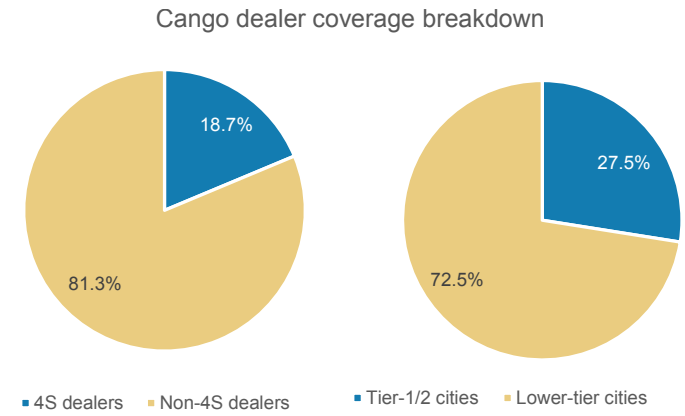
Mass-market brand car sales have been underperforming the overall industry



Source: CPCA, Morgan Stanley Research

Exhibit 41:

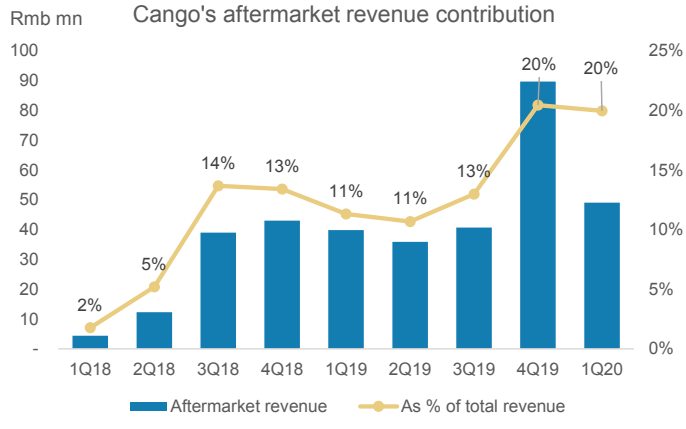
Most Cango-covered dealers are non-4S dealers in the lower-tier cities (by end-2019)



Source: Company data, Morgan Stanley Research

Exhibit 42:

Revenue contribution from Cango's aftermarket business has been increasing



Source: Company data, Morgan Stanley Research (E) estimates

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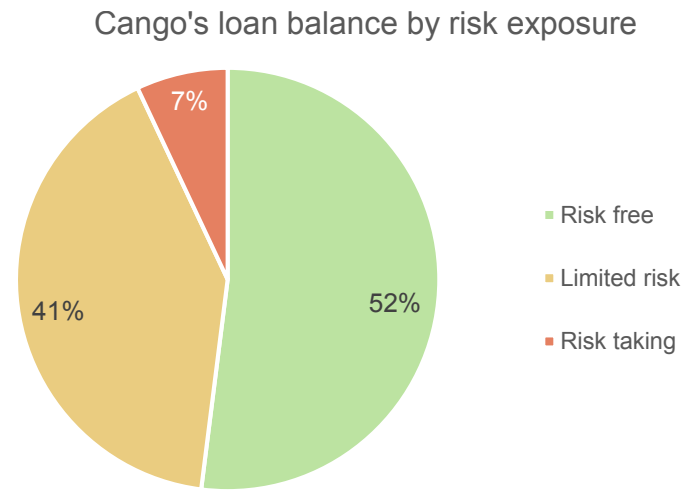
Manageable risk in a growing auto finance industry: Cango's auto finance business model has lower risk than those that use their own balance sheet, in our view. For auto financing facilitation, there are three possible models:

- **Risk-free under direct partnership model:** Cango is not obligated to bear credit risk for the majority of financing transactions under the direct partnership model, i.e., those funded by Jincheng Bank and Jiangnan Rural Commercial Bank. This accounts for 51% of the total outstanding balance of financing transactions that Cango facilitated by the end of 2019.
- **Limited risk under co-partnership model:** Cango is obligated to purchase relevant financing receivables under the co-partnership model and a few under the direct partnership model, upon certain specified events of default by car buyers. Therefore, Cango will book a risk assurance liability (Rmb367mn by the end of 1Q20, up from Rmb260mn at the end of 2019) for potential default. This accounts for 42% of the total outstanding balance of financing transactions that Cango facilitated by the end of 2019.
- **Risk taking under finance lease:** Cango also uses its own balance sheet to conduct auto finance business, via its leasing subsidiary Chejia. This only accounted for 7% of the loan balance by the end of 2019, and therefore the overall risk is manageable, we believe.

We notice Cango's M1 (30-179 days) overdue ratio hiked to 2.00% in 1Q20 from 0.85% in 4Q19, mainly due to the COVID-19 lockdown. Management guided that the overdue ratio dropped in 2Q20 to the pre-pandemic level.

Exhibit 43:

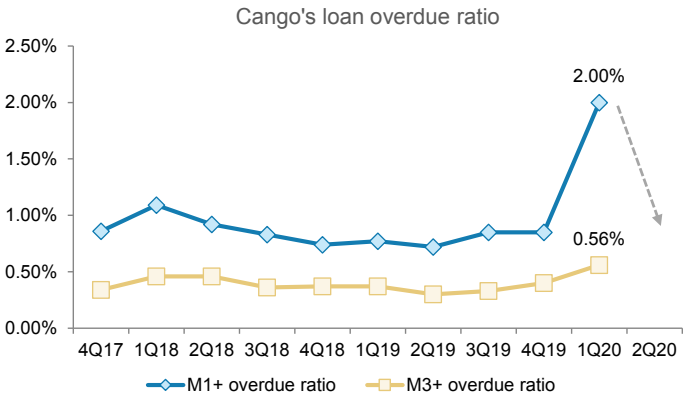
Cango's risk in its auto financing facilitation business looks manageable



Source: Company data, Morgan Stanley Research

Exhibit 44:

We expect Cango's overdue ratio to decline in 2Q20



Source: Company data, Morgan Stanley Research

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Exhibit 45:

Risk exposure from Cango's major funding partners

	Total Asset (US$Bn)	Remarks	Type
ICBC 中国工商银行 SHA: 601398	4,324	Largest bank in the world	Direct Partnership: Risk-Taking
中国民生银行 CHINA MINSHENG BANK SHA: 600016	960	28th largest bank in the world	Direct Partnership: Risk-Taking
上海银行 Bank of Shanghai SHA: 601229	322	68th largest bank in the world	Direct Partnership: Risk-Taking
江南农村商业银行 Jiangnan Rural Commercial Bank	59	10th largest rural commercial bank in China	Direct Partnership: Risk-Free
WeBank	42	First private commercial bank in China backed by Tencent 腾讯	Co-partnership: Risk-Free
晋城银行 JCBANK Jincheng Bank	12	Well recognized player in auto financing	Direct Partnership: Risk-Free

Source: Company data

We lower Cango's 2021-22 earnings estimates by 4-5%, to reflect slower-than-expected auto sales recovery for Chinese local brands. Meanwhile, we use a higher P/E multiple of 14.5x, up from 13.1x previously, to derive Cango's price target of US$5.5 (up from US$5.2). The 14.5x P/E multiple is based on the one-year historical average of forward P/E, and reflects higher recovery visibility after COVID-19 and better market liquidity.

Auto parts

Fuyao Glass (3606.HK / 600660.SS, EW)

Rising yet competitive auto glass aftermarket: Fuyao supplies auto glass to both OEMs and aftermarket service providers, and we estimate that the aftermarket channel currently contributes less than 20% of Fuyao's total revenue. Fuyao has around 60% share in the US aftermarket, but only around 20% share in China's aftermarket. As the aftermarket grows in China, we look for more revenue opportunities for Fuyao from auto glass replacement and upgrade. A Fuyao subsidiary, TripleX, focuses on aftermarket business, and has collaborated with dealer groups, such as Zhongsheng, as well as insurance companies, such as PICC P&C and Ping An, to expand its aftermarket sales channel. That said, we expect competition to remain intense in the aftermarket, as the aftermarket has lower entry barriers than the OEM channel, and therefore more players to compete on pricing.

Cheng Shin Rubber (2105.TW, UW)

High exposure to aftermarket yet pricing pressure: CSR garnered 70% of its revenue from the aftermarket tire business in 2019. However, we expect CSR to face intensifying competition from local and Korean players, e.g., Linglong Tyre, Hankook. In addition, global brands, such as Michelin and Goodyear, are operating repair chain stores via franchise models, and therefore, CSR would also face competition from well-branded global names.

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Insurance

PICC P&C (2328.HK, OW)

Self-owned channel to reduce loss ratio: PICC P&C's loss ratio has remained ~60% over the past five years. By building a self-owned parts procurement channel via Bangbang, PICC P&C should be able to reduce claim cost, accelerate claim processes and improve customer satisfaction.

Ping An (2318.HK, OW)

Big data on aftermarket to optimize product offerings: Ping An has over 100mn registered users on the "Ping An Auto Owner" app, whose car usage / maintenance / repair data can be leveraged to improve the company's pricing and claim processes in the auto segment. Besides that, accumulated driving behavioral data will help Ping An prepare for the potential launch of Usage Based Insurance (UBI) in the future.

Internet

Alibaba (BABA.N, OW)

Tapping into new territory: We believe Tmall Car can leverage BABA's brand name and user base when tapping into the auto aftermarket. Compared to other repair chain store names, Tmall is well known to Chinese customers, which should make it easier to expand the customer base. Tmall Car generates revenue from: 1) franchise fees; 2) management fees on the incremental revenue of the repair store after vs. before joining Tmall Car. That said, given Tmall Car is still in the early expansion stage, we estimate it accounts for less than 1% of Alibaba's total revenue.

JD (JD.O, OW)

Synergy with its supply chain business: In contrast with Tmall Car, which has the advantage in user traffic acquisition, Jing Che Hui's competitive advantage resides in its capabilities in supply chain management and logistics. JD does not charge franchise fees from repair stores for joining the "Jing Che Hui". Instead, they aim to penetrate the independent aftermarket channels by providing B2B supply chain services. Similar to Tmall Car, "Jing Che Hui" has limited earnings contribution to JD at current stage, per our assessment.

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China Auto Dealer Valuations

The valuation multiples among China auto dealers diverge notably, with leading players such as Zhongsheng and Meidong enjoying a premium.

Zhongsheng is trading at 17x one-year forward consensus EPS, higher than most of its peers. We view a valuation premium as justified for Zhongsheng because of: 1) its better brand mix – Lexus, Toyota and Mercedes dealers enjoy higher new car margins, in general; and 2) its stronger balance sheet and better access to funding, which enables Zhongsheng to consolidate the industry when it identifies good opportunities.

Meidong is trading at 26x one-year forward consensus EPS. This is supported by the 50% earnings CAGR that we project for 2019-22E (vs. peers' 15-20% earnings CAGR, per our forecasts) and higher ROE, at 38% in 2020E (vs. peers' 6-22% ROE).

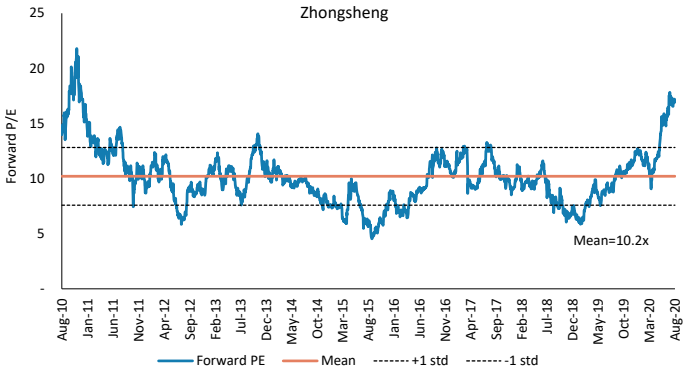
Yongda is trading at 7x one-year forward consensus EPS, largely in line with its historical eight-year average of 7x P/E. The valuation discount to Zhongsheng and Meidong reflects: 1) its inferior brand mix, e.g., VW and GM; and 2) its lower growth in after-sales.

Baoxin is trading at 5x one-year forward consensus EPS, lower than its historical eight-year average of 7x P/E. We view its risk-reward as reasonably balanced, because of potentially delayed recovery of JLR dealers amid the impact of COVID-19.

Zhengtong is trading at 3x one-year forward consensus EPS, lower than its historical eight-year average of 7x P/E. Despite sitting at an historical low, we don't see the valuation as attractive, due to tight working capital, which is likely to hurt new car sales and margin, as well as lead to higher finance cost.

Exhibit 46:

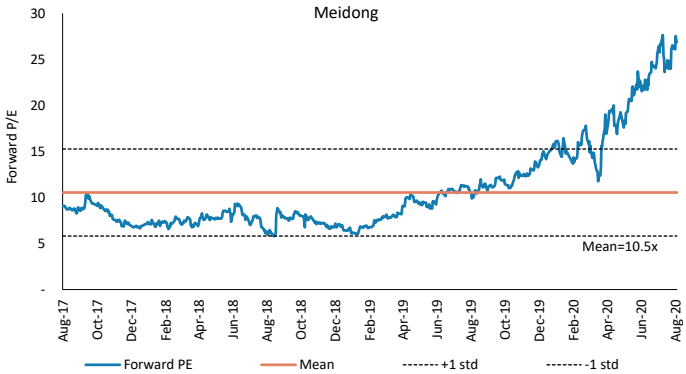
Zhongsheng's forward P/E



Source: Refinitiv, Morgan Stanley Research

Exhibit 47:

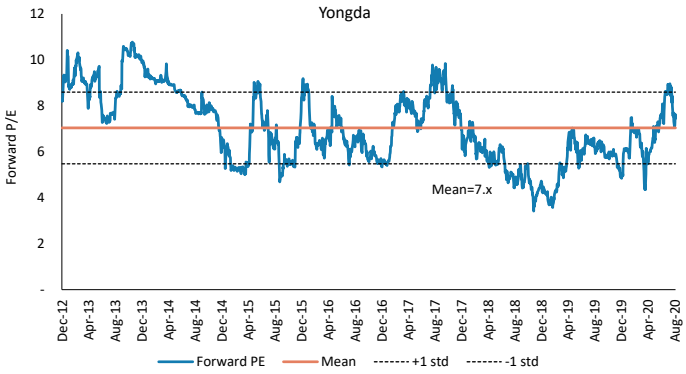
Meidong's forward P/E



Source: Refinitiv, Morgan Stanley Research

Exhibit 48:

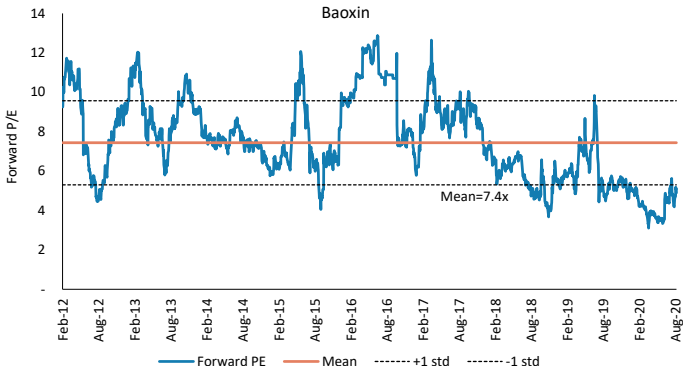
Yongda's forward P/E



Source: Refinitiv, Morgan Stanley Research

Exhibit 49:

Baoxin's forward P/E



Source: Refinitiv, Morgan Stanley Research

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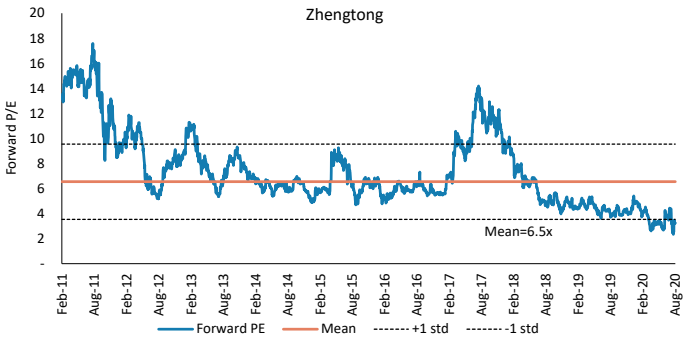
Exhibit 50:

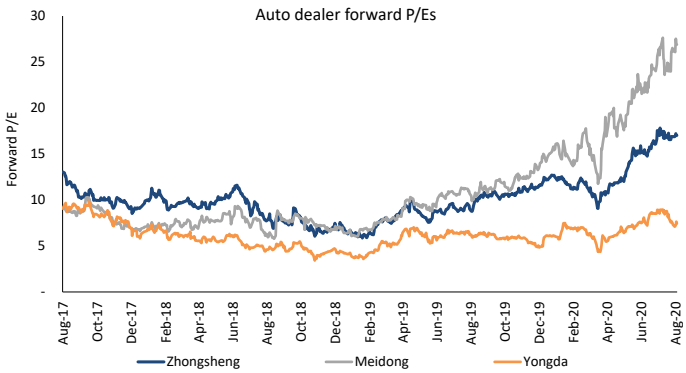
Zhengtong's forward P/E



Source: Refinitiv, Morgan Stanley Research

Exhibit 51:

Forward P/E comparison: Zhongsheng, Meidong, Yongda



Source: Refinitiv, Morgan Stanley Research

Exhibit 52:

Auto dealer valuation comps

Company Name	Ticker	Rating	PT	Last Close 8/10/2020	Mkt Cap (US$ mn)	EPS 20E	EPS 21E	P/E '20E	P/E 21E	EPS CAGR (%) '20-'22E	P/B '20E	P/B 21E	EV/EBITA (x) '20E	EV/EBITA (x) 21E	ROE (%) '20E	ROE (%) 21E	Performance (%) '19	Performance (%) YTD20	Trading Value avg6M (USD mn)
China Auto Dealer - H																			
Zhongsheng Group	0881.HK	OW	60.0	48.8	14,290	2.2	2.8	19.9	15.5	21.6	4.0	3.3	11.6	9.5	22.4	23.8	105.5	52.8	21.7
Yongda Auto	3669.HK	OW	10.0	8.2	2,087	0.9	1.2	8.2	6.4	21.5	1.5	1.3	7.5	6.1	15.9	18.1	49.2	19.0	10.1
Meidong Auto	1268.HK	OW	27.0	22.9	3,666	0.7	1.1	29.7	19.2	50.0	11.2	8.8	18.2	12.6	42.6	52.8	245.3	123.6	8.9
Zhengtong Auto	1728.HK	EW	1.1	1.1	369	0.3	0.4	3.0	2.6	15.7	0.2	0.2	7.4	6.9	6.2	6.9	-40.5	-61.9	4.7
Grand Baoxin	1293.HK	EW	1.3	1.4	498	0.3	0.3	4.8	4.0	16.0	0.4	0.4	5.1	4.6	8.9	9.8	-32.6	-8.7	0.3
Harmony Auto	3836.HK	NC	NC	3.4	697	0.4	0.4	9.3	7.8	13.7	0.7	0.6	6.1	5.4	7.8	8.3	33.3	-12.5	1.1
Average								**12.5**	**9.2**		**3.0**	**2.4**	**9.3**	**7.5**	**17.3**	**20.0**			
China Auto Dealer - A																			
China Grand Auto	600297.SS	NC	NC	4.1	4,725	0.3	0.4	14.8	11.0	0.7	0.8	0.8	10.3	8.9	5.2	6.1	-19.7	24.2	26.2
Average								**14.8**	**11.0**		**0.8**	**0.8**	**10.3**	**8.9**	**5.2**	**6.1**			
US Auto Dealer																			
AutoNation	AN.N	UW	38.0	53.3	4,650	3.7	4.0	13.1	11.9	7.0	1.2	1.1	7.7	7.4	15.0	14.1	36.2	9.6	9.7
Penske Automotive	PAG.N	OW	46.0	45.6	3,666	3.9	5.1	10.4	8.0	-1.8	1.1	1.1	12.5	10.8	11.6	14.3	24.6	-9.1	4.4
Lithia Motors	LAD.N	OW	180.0	241.2	5,510	12.0	14.4	18.1	15.1	22.2	2.3	1.9	14.0	12.5	19.2	20.0	92.6	64.1	10.4
Asbury Automotive	ABG.N	EW	100.0	102.5	1,977	10.3	11.7	9.0	7.9	19.8	2.1	1.6	7.8	6.8	27.3	22.7	67.7	-8.3	6.0
Group 1 Automotive	GPI.N	OW	87.0	92.1	1,682	9.0	11.6	9.2	7.2	22.9	0.9	0.8	11.5	9.9	14.9	15.4	89.7	-7.9	6.2
Sonic Automotive	SAH.N	EW	35.0	40.0	1,704	3.5	3.8	10.3	9.4	10.1	2.2	1.8	9.7	9.3	13.2	17.3	125.3	29.0	3.9
Average								**11.7**	**9.9**		**1.6**	**1.4**	**10.5**	**9.5**	**16.8**	**17.3**			

Source: Refinitiv, Morgan Stanley Research. E=Morgan Stanley Research estimates for covered companies and Refinitiv consensus for non-covered (NC) companies.

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Risk Reward – Zhongsheng Group Holdings (0881.HK)

Despite strong recent performance, we still see upside

PRICE TARGET HK$60.00

HK$60: Base case, derived from DCF methodology. Our key assumptions include a 12.4% WACC (15.3% cost of equity, 5.5% cost of debt, 30% target gearing ratio) and a 3% terminal growth rate.

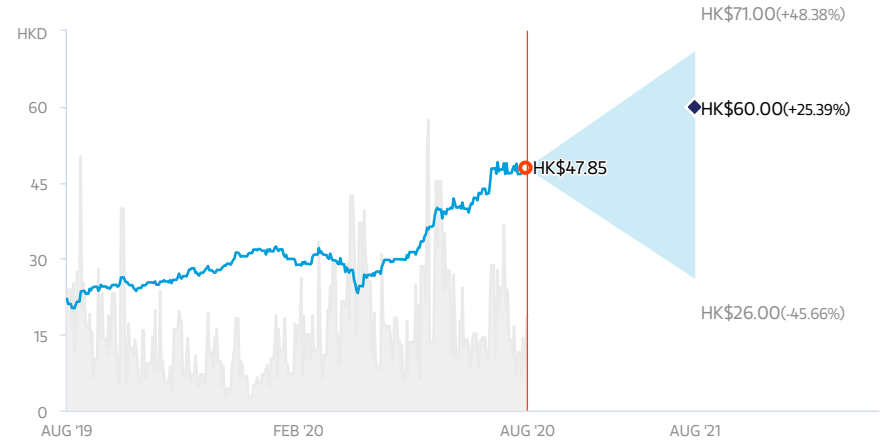
Consensus Price Target Distribution HK$21.77 HK$45.49 HK$75.94

MS PT

Mean Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART



Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research

OVERWEIGHT THESIS

- We expect Zhongsheng to weather temporary downturn in 1H20 and benefit from market consolidation from 2H20.
- Zhongsheng has a better brand mix (i.e., Lexus, Mercedes, Toyota) than peers and has fortified its position in Mercedes dealerships. A trial of entering lower-tier cities could enable further addressable market expansion.
- We also expect its after-sales revenue to grow steadily,
- "Investment grade" credit rating will help to reduce its effective interest rate. This has influenced our DCF value positively.
- We see attractive value even after a strong runup. Better brand mix, stronger balance sheet, and better access to funding merit a premium valuation.

Consensus Rating Distribution

81%	Overweight
15%	Equal-weight
4%	Underweight

MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Earnings Quality:	*Positive*
Secular Growth:	*Positive*
Share Gain:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$71.00

21x 2021E bull case EPS

New car sales are stronger-than-expected and shared mobility business contributes to long-term growth: Zhongsheng's new car sales growth is stronger-than-expected; After-sales services post strong growth with resilient margin; partnership with Toyota shared mobility contributes to long-term growth.

BASE CASE HK$60.00

19x 2021E base case EPS

New car sales remain solid and after-sales revenue grows steadily: Zhongsheng's new car sales growth remains solid, mainly benefiting from Japanese brands such as Lexus, Toyota and Honda's strong momentum. After-sales revenue grows steadily thanks to high customer retention rate. Meanwhile, a good track record of dealer store acquisitions underpins its promising long-term outlook.

BEAR CASE HK$26.00

10x 2021E bear case EPS

New car sales growth weakens amid sluggish auto demand in China: Zhongsheng's new car sales growth weakens with deteriorating new car margin amid sluggish auto demand in China. After-sales revenue growth decelerates as customers choose cheaper alternatives amid economic downturn.

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Risk Reward – Zhongsheng Group Holdings (0881.HK)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
New car sales volume (000s)	456	498	572	621
New car gross margin (%)	2.7	3.1	3.1	3.2
New car revenue growth (%)	14	14	15	8
After-sales revenue growth (%)	23	15	21	19

CATALYST CALENDAR

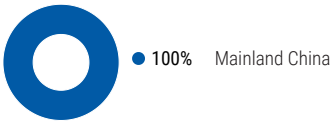
Date	Event
10 Aug 2020	Half Year 2020 Zhongsheng Group Holdings Ltd Earnings Release

Source: Thomson Reuters, Morgan Stanley

INVESTMENT DRIVERS

- New car sales, especially sales of its key luxury brands.
- After-sales services volume.
- ASP of new cars and after-sales services.
- Network expansion plans.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

1/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected new car sales.
- Gross margin improvement of key brands, such as Lexus and Mercedes.
- Faster-than-expected network expansion via M&A.

RISKS TO DOWNSIDE

- Weaker-than-expected sales of midrange brands.
- Tougher-than-expected price competition among luxury dealers.
- Lower-than-expected performance of acquired stores.

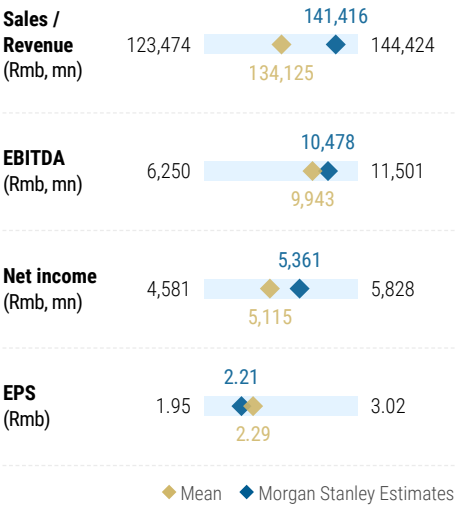
OWNERSHIP POSITIONING

Inst. Owners, % Active 86.7%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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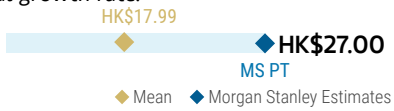
Risk Reward – China MeiDong Auto Holdings Ltd (1268.HK)

Superior operation in lower-tier cities

PRICE TARGET HK$27.00

Base case, derived from DCF methodology. Our key assumptions include a 13% WACC (15.3% cost of equity and 7.7% cost of debt) and a 3% terminal growth rate.

Consensus Price Target Distribution HK$10.81



Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART

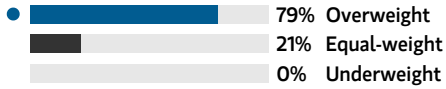
Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research

OVERWEIGHT THESIS

- We expect Meidong's strong earnings growth to come from rapid store expansion, favorable brand exposure to Lexus/Porsche, and fast inventory turnover.
- Despite a smaller operating scale, Meidong's data-driven operation delivers over 30% ROE.
- Meidong strategically focuses on lower-tier cities to avoid fierce competition in tier-1/2 cities, and to maximize first-mover advantage from consumption upgrades in lower-tier cities.

Consensus Rating Distribution



Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Secular Growth:	*Positive*
Share Gain:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$32.00

23x 2021E bull case EPS

Rapid new store expansion: Dealer stores expand to over 70 by end-2020; new car margin improves thanks to tight supply; after-sales revenue grows notably thanks to rising ASP and high customer retention rate.

BASE CASE HK$27.00

23x 2021E base case EPS

Steady new store expansion: Dealer stores expand to over 65 by end-2020; new car margin remains resilient thanks to tight supply; after-sales revenue grows steadily thanks to high customer retention rate.

BEAR CASE HK$12.00

12x 2021E bear case EPS

Stagnant new store expansion: Number of dealer stores is less than 60 by end-2020; new car margin declines due to intensifying competition; after-sales revenue growth is below 20% YoY in 2020 due to low customer retention.

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Risk Reward – China MeiDong Auto Holdings Ltd (1268.HK)

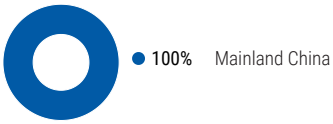
KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
New car sales volume (000s)	49	59	74	88
New car gross margin (%)	5.0	5.1	5.0	5.1
New car revenue growth (%)	47	28	31	22
After-sales revenue growth (%)	41	29	45	41

INVESTMENT DRIVERS

- New car sales, especially sales of its key luxury brands.
- After-sales services volume.
- ASP of new cars and after-sales services.
- Network expansion plans.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

1/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected new car sales.
- Gross margin improvement of key brands, such as BMW, Lexus and Porsche.
- Faster-than-expected network expansion via M&A.

RISKS TO DOWNSIDE

- Weaker-than-expected sales of mid-range brands.
- Tougher-than-expected price competition among luxury dealers.
- Lower-than-expected performance of acquired stores.

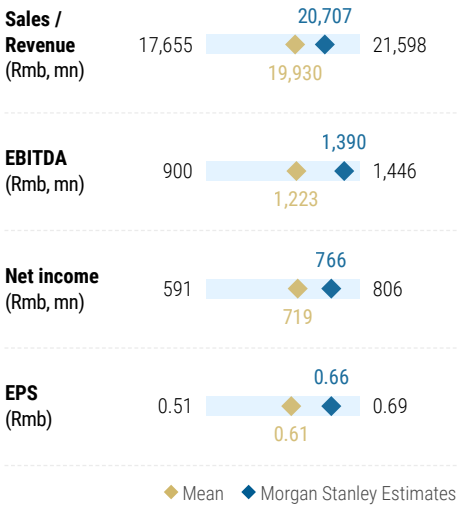
OWNERSHIP POSITIONING

Inst. Owners, % Active 86%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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Meidong: Financial Summary

Exhibit 53:

Meidong: financial summary

Income Statement

RMB mn	2019A	2020E	2021E	2022E
Revenue	**16,210**	**20,707**	**27,420**	**33,998**
Cost of sales	(14,652)	(18,671)	(24,589)	(30,217)
Gross profit	**1,558**	**2,036**	**2,831**	**3,781**
Other income	154	178	246	334
Distribution costs	(493)	(642)	(795)	(986)
Admin expenses	(382)	(458)	(550)	(660)
Operating profit	**837**	**1,114**	**1,732**	**2,470**
Finance costs	(123)	(117)	(109)	(118)
Share of profit of JV/associate	44	56	74	92
Profit before taxation	**757**	**1,053**	**1,697**	**2,443**
Income tax expense	(200)	(278)	(448)	(645)
Profit for the year	**558**	**775**	**1,249**	**1,799**
Non-controlling interests	(7)	(9)	(15)	(22)
Net profit	**551**	**766**	**1,234**	**1,777**
EPS (Rmb)	0.47	0.66	1.06	1.53

	2019A	2020E	2021E	2022E
Growth (%)				
Revenue	46.5%	27.7%	32.4%	24.0%
Operating profit	59.8%	33.1%	55.5%	42.6%
Net profit	51.8%	39.0%	61.2%	44.0%
EPS	50.5%	39.0%	61.2%	44.0%
Margins (%)				
Gross margin	9.6%	9.8%	10.3%	11.1%
Operating margin	5.2%	5.4%	6.3%	7.3%
Net margin	3.4%	3.7%	4.5%	5.2%
EBITDA margin	6.3%	6.4%	7.3%	8.2%
Return (%)				
ROA	10.9%	12.2%	16.9%	20.1%
ROE	31.5%	36.5%	46.4%	51.1%
Gearing (%)				
Total liabilities/assets	70%	68%	66%	64%
Total debt/equity	65%	59%	50%	41%
Net debt/equity	-57%	-28%	-26%	-29%
Asset/equity	335%	310%	297%	274%
Total debt / EBITDA	109%	91%	66%	51%
Efficiency				
Asset turnover (x)	3.2	3.3	3.8	3.9
Inventory days	17.2	15.3	18.1	19.5
Receivable days	23.1	21.7	20.2	20.8
Payable days	45.9	43.8	40.3	41.6
SG&A sales	5.4%	5.3%	4.9%	4.8%
EBITDA / financial cost	8.3	11.4	18.3	23.6
Current ratio	1.2	1.2	1.2	1.3
Quick ratio	1.0	0.9	0.9	0.9

Balance Sheet

RMB mn	2019A	2020E	2021E	2022E
Inventories	541	1,023	1,415	1,821
Trade and other receivables	1,159	1,308	1,732	2,148
Bank deposit	962	962	962	962
Cash and cash equivalents	1,124	825	1,018	1,456
Total current assets	**3,785**	**4,118**	**5,127**	**6,386**
PPE	1,035	1,262	1,526	1,750
Right-of-use assets	826	882	953	1,012
Intangible assets	65	61	57	53
Other non-current assets	214	270	344	435
Total non-current assets	**2,140**	**2,475**	**2,880**	**3,250**
Total assets	**5,925**	**6,593**	**8,007**	**9,637**
Loans and borrowings	871	950	1,028	1,106
Corporate bonds	-	-	-	-
Trade and other payables	2,132	2,346	3,089	3,797
Income tax payables	92	92	92	92
Total current liabilities	**3,180**	**3,472**	**4,294**	**5,080**
Loans and borrowings	240	262	284	305
Corporate bonds	-	-	-	-
Deferred tax liabilities	9	9	9	9
Other current liabilities	-	-	-	-
Total non-current liabilities	**975**	**997**	**1,019**	**1,040**
Share capital	91	91	91	91
Reserves	1,620	1,965	2,521	3,322
Shareholder's equity	**1,712**	**2,057**	**2,612**	**3,413**
Minority interest	58	67	82	104
Total equity	**1,769**	**2,124**	**2,695**	**3,517**
Total liabilities and equity	**5,925**	**6,593**	**8,007**	**9,637**

Cash Flow Statement

RMB mn	2019A	2020E	2021E	2022E
Operating cash flow	931	621	1,466	2,015
Investing cash flow	(283)	(482)	(585)	(583)
Financing cash flow	(390)	(438)	(687)	(995)
Change in cash balance	**257**	**(299)**	**194**	**437**
Cash balance at BOP	867	1,124	825	1,018
Cash balance at EOP	1,124	825	1,018	1,456

Source: Company data, Morgan Stanley Research (E) estimates

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Meidong: Estimates Revisions

We cut Meidong's 2020 earnings estimate by 5%, to reflect lower-than-expected repair demand due to fewer miles travelled amid Covid-19 lockdown. However, we raise Meidong's 2022 earnings estimate by 2%, to reflect higher customer retention rate, on the back of Meidong's determination to improve after-sales business in the future.

Exhibit 54:

Meidong: Estimate revisions

	OLD			NEW			CHANGE		
Rmb mn	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**
Revenue	20,805	27,413	33,856	20,707	27,420	33,998	-0.5%	0.0%	0.4%
Gross profit	2,094	2,845	3,736	2,036	2,831	3,781	-2.8%	-0.5%	1.2%
Operating profit	1,169	1,746	2,428	1,114	1,732	2,470	-4.7%	-0.8%	1.7%
Net profit	806	1,244	1,746	766	1,234	1,777	-5.0%	-0.8%	1.8%
EPS (Rmb)	0.69	1.07	1.50	0.66	1.06	1.53	-5.0%	-0.8%	1.8%
Gross margin	10.1%	10.4%	11.0%	9.8%	10.3%	11.1%	(0.2)	(0.1)	0.1
Operating margin	5.6%	6.4%	7.2%	5.4%	6.3%	7.3%	(0.2)	(0.1)	0.1
Net margin	3.9%	4.5%	5.2%	3.7%	4.5%	5.2%	(0.2)	(0.0)	0.1

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 55:

Meidong: Key assumptions

Meidong (1268.HK)

Operation Matrix	**2019A**	**2020E**	**2021E**	**2022E**
New car sales volume				
- Luxury brands	29,992	37,561	49,313	60,300
- Mid-to-high brands	19,367	21,428	24,745	27,688
Total sales volume	**49,359**	**58,989**	**74,058**	**87,988**
Revenue (Rmb mn)				
- New car sales	14,384	18,355	24,017	29,209
- After-sales services	1,826	2,352	3,402	4,790
Total revenue	**16,210**	**20,707**	**27,420**	**33,998**
Gross margin				
- New car sales	5.0%	5.1%	5.0%	5.1%
- After-sales services	46.1%	46.6%	47.6%	48.1%
Overall gross margin	**9.6%**	**9.8%**	**10.3%**	**11.1%**

	2019A	**2020E**	**2021E**	**2022E**
Sales volume YoY				
- Luxury brands	52%	25%	31%	22%
- Mid-to-high brands	7%	11%	15%	12%
Total sales volume	**30%**	**20%**	**26%**	**19%**
Revenue YoY				
- New car sales	47%	28%	31%	22%
- After-sales services	41%	29%	45%	41%
Total revenue	**46%**	**28%**	**32%**	**24%**
Gross margin YoY (ppt)				
- New car sales	0.4%	0.1%	-0.1%	0.0%
- After-sales services	-2.3%	0.5%	1.0%	0.5%
Overall gross margin	**-0.1%**	**0.2%**	**0.5%**	**0.8%**

Source: Company data, Morgan Stanley Research (E) estimates

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Meidong: Valuation Methodology

We derive our HK$27 price target for Meidong from our base case discounted cash flow (DCF) valuation methodology. We cut our 2020 earnings estimate by 5%, to raise 2022's by 2% to reflect higher after-sales growth, supported by Meidong's initiatives to increase its customer retention rate. Therefore, our price target goes up by 8% to HK$27 (from HK$25). Other key assumptions are unchanged, which include:

- 15.3% cost of equity: Derived from a beta of 1.85, an equity risk premium of 4.5%, a risk-free rate of 3.3%, and a China risk premium of 2.0%.
- 13% WACC: Derived from a 15.3% cost of equity and a post-tax cost of debt of 7.7%.
- 3% terminal growth.

We also raise our bull-case scenario value by 7% to HK$32, and bear-case scenario value by 9% to HK$12, largely in line with the 8% increase in our price target.

Exhibit 56:

Meidong: DCF valuation

Rmb mn	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Turnover	11,067	16,210	20,707	27,420	33,998	41,818	49,554	56,987	63,826	68,932	73,068	76,721	79,790	82,184
YoY%		46%	28%	32%	24%	23%	19%	15%	12%	8%	6%	5%	4%	3%
Pre-tax profit (EBIT)	**524**	**837**	**1,114**	**1,732**	**2,470**	**3,038**	**3,600**	**4,140**	**4,637**	**5,007**	**5,308**	**5,573**	**5,796**	**5,970**
EBIT margin	4.7%	5.2%	5.4%	6.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%
YoY%		60%	33%	55%	43%	23%	19%	15%	12%	8%	6%	5%	4%	3%
+ Depreciation & Amortization	101	182	220	269	322	396	469	539	604	652	692	726	755	778
EBITDA	**625**	**1,019**	**1,334**	**2,001**	**2,792**	**3,434**	**4,069**	**4,679**	**5,241**	**5,660**	**6,000**	**6,300**	**6,552**	**6,748**
- Less adjusted taxes	(128)	(200)	(278)	(448)	(645)	(759)	(900)	(1,035)	(1,159)	(1,252)	(1,327)	(1,393)	(1,449)	(1,493)
- Capital expenditure	(308)	(429)	(500)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
+/- Changes in working capital	(152)	77	(418)	(72)	(115)	(111)	(131)	(151)	(169)	(183)	(193)	(203)	(211)	(218)
Free cash flow	37	468	138	881	1,432	1,963	2,438	2,893	3,313	3,626	3,879	4,103	4,291	4,438
Discount factor			1.00	1.13	1.28	1.44	1.63	1.85	2.09	2.36	2.67	3.01	3.41	3.85
PV			138	779	1,120	1,359	1,493	1,567	1,587	1,537	1,455	1,361	1,259	1,152
Terminal value														11,811

Corporate NPV	**26,619**
Minorities	(67)
Net (debt)/cash	575
Equity NPV	**27,127**
NOSH	1,155
NPV per share	23.5
Exchange rate	1.15
PT (HK$)	**27.0**

Cost of equity (%)		**Cost of debt (%)**	
Risk free rate (%)	3.3	**Average spread over risk-free rate (%)**	7.0
Beta	1.85	**Pre-tax cost of debt (%)**	10.3
HK Equity risk premium (%)	4.5	**Average corporate tax rate for company (%)**	25.0
China Equity risk premium (%)	2.0	**Post-tax cost of debt (%)**	7.7
CAPM unleveraged discount rate	15.3		
Estimated target gearing (net debt/EV) (%)		30.0	
WACC (%)		13.0	

Source: Company data, Morgan Stanley Research (E) estimates

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Risk Reward – China Yongda Automobiles Services (3669.HK)

Benefiting from strong momentum at BMW and Porsche dealerships

PRICE TARGET HK$10.00

Base case, derived from discounted cash flow (DCF) methodology. Our key assumptions include a 13% WACC (15.3% cost of equity and 7.7% cost of debt) and a 3% terminal growth rate.

Consensus Price Target Distribution HK$7.41 HK$10.91 HK$14.31

MS PT

Source: Thomson Reuters, Morgan Stanley Research

Mean Morgan Stanley Estimates

RISK REWARD CHART

Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research

OVERWEIGHT THESIS

- Yongda is the largest BMW dealer in China. We expect its BMW sales volume to continue to grow in 2020-21, thanks to new store expansion and market consolidation.
- Yongda is expanding Porsche and Lexus dealers, both of which enjoy higher new car margin and higher after-sales retention.
- Yongda can benefit from Shanghai's vehicle license quota relaxation in 2020.

Consensus Rating Distribution

88% Overweight
12% Equal-weight
0% Underweight

MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*
Share Gain: *Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$13.00

11x 2021E bull case EPS

Stronger-than-expected sales of key luxury brands: Yongda's BMW dealers generate strong sales growth in 2H20 along with improving new car margin. Yongda's Porsche and Lexus dealers earn better-than-expected new car margin, and customer retention for after-sales services is higher than expected.

BASE CASE HK$10.00

9x 2021E base case EPS

Solid sales of key luxury brands: Yongda's BMW dealers post solid volume growth in 2H20 along with flattish YoY new car margin. Yongda's increasing exposure to Porsche and Lexus bodes well for long-term sales growth and margin expansion.

BEAR CASE HK$4.00

5x 2021E bear case EPS

Weaker-than-expected sales of key luxury brands: Yongda's BMW new car sales slow notably amid economic slowdown. The company widens discounts to clear inventories, deteriorating profitability.

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Risk Reward – China Yongda Automobiles Services (3669.HK)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
New car sales volume (000s)	197	203	229	251
New car gross margin (%)	2.4	2.7	2.9	3.0
New car revenue growth (%)	13	1	14	10
After-sales revenue growth (%)	14	7	15	15

CATALYST CALENDAR

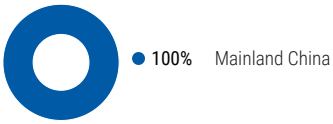
Source: Thomson Reuters, Morgan Stanley

Date	Event
25 Aug 2020 - 31 Aug 2020	Half Year 2020 China Yongda Automobiles Services Holdings Ltd Earnings Release
28 Oct 2020 - 02 Nov 2020	Q3 2020 China Yongda Automobiles Services Holdings Ltd Earnings Release

INVESTMENT DRIVERS

- New car sales, especially sales of its key luxury brands.
- After-sales services volume.
- ASP of new cars and after-sales services.
- Network expansion plans.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected new car sales.
- Faster-than-expected network expansion via M&A.
- Stronger-than-expected used car business growth.

RISKS TO DOWNSIDE

- Weaker-than-expected sales of BMW's new models.
- Tougher-than-expected price competition among luxury dealers, which leads to greater than expected margin erosion.
- Lower-than-expected performance of acquired stores.

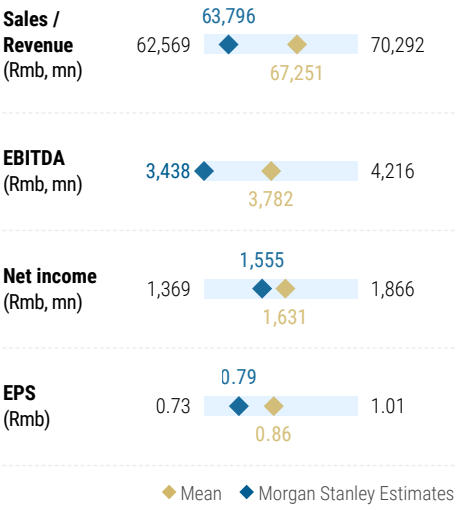
OWNERSHIP POSITIONING

Inst. Owners, % Active 85.9%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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Yongda: Financial Summary

Exhibit 57:

Yongda: Financial summary

Income Statement

RMB Mn	2019A	2020E	2021E	2022E
Revenue	**62,707**	**63,796**	**72,539**	**80,250**
Cost of sales	(56,843)	(57,597)	(65,415)	(72,186)
Gross profit	**5,864**	**6,199**	**7,125**	**8,065**
Other income & gains	1,177	1,204	1,319	1,445
Selling expenses	(2,733)	(2,820)	(3,119)	(3,451)
Administrative expenses	(1,490)	(1,639)	(1,721)	(1,807)
EBIT	**2,819**	**2,944**	**3,603**	**4,252**
Finance costs	(778)	(788)	(880)	(972)
Share of results of JVs	9	9	10	11
Share of results of associates	26	27	30	34
Profit before tax	**2,076**	**2,192**	**2,764**	**3,325**
Income tax expense	(507)	(535)	(675)	(812)
PAT	**1,569**	**1,657**	**2,089**	**2,513**
Minority interest	(96)	(101)	(128)	(154)
Net profit	**1,473**	**1,555**	**1,961**	**2,360**
EPS (Rmb)	**0.80**	**0.79**	**1.00**	**1.20**

	2019A	2020E	2021E	2022E
Growth (%)				
Revenue	13.4%	1.7%	13.7%	10.6%
Operating profit	18.8%	4.5%	22.4%	18.0%
Net profit	17.5%	5.6%	26.1%	20.3%
Margins (%)				
Gross margin	9.4%	9.7%	9.8%	10.0%
Operating margin	4.5%	4.6%	5.0%	5.3%
Net margin	2.3%	2.4%	2.7%	2.9%
EBITDA margin	5.6%	5.3%	5.6%	5.9%
Return (%)				
ROA	4.4%	4.2%	4.9%	5.3%
ROE	15.6%	15.0%	16.9%	18.1%
Dividend yield	4.2%	4.1%	5.2%	6.3%
Gearing (%)				
Total liabilities/assets	71%	70%	69%	68%
Total debt/equity	130%	131%	130%	126%
Net debt/equity	78%	89%	82%	76%
Asset/equity	3.6	3.5	3.4	3.3
Total debt / EBITDA	3.7	4.2	3.9	3.7
Efficiency				
Asset turnover (x)	1.9	1.7	1.8	1.8
Inventory days	36.8	35.9	34.0	34.4
Receivable days	37.9	40.1	38.5	39.0
Payable days	40.4	45.1	42.7	43.3
G&A / sales	2.4%	2.6%	2.4%	2.3%
SG&A / sales	6.7%	7.0%	6.7%	6.6%
EBITDA / financial cost	4.5	4.3	4.6	4.9
Current ratio	1.0	0.9	0.9	0.9
Quick ratio	0.5	0.4	0.4	0.5

Balance Sheet

RMB Mn	2019A	2020E	2021E	2022E
Property, plant and equipment	6,105	6,386	6,174	5,955
Lease prepayments	0	1,911	2,295	2,758
Intangible assets	2,065	2,708	3,554	4,669
Deferred tax assets	210	210	210	210
Other non current assets	6,820	6,805	6,843	6,885
Non-current assets	**15,199**	**18,020**	**19,076**	**20,477**
Inventories	5,627	5,701	6,475	7,145
Trade and other receivables	6,847	7,166	8,148	9,014
Pledged bank deposits	2,450	2,450	2,450	2,450
Bank balances and cash	2,210	1,746	2,837	3,961
Other current assets	2,667	2,654	2,666	2,681
Current assets	**20,275**	**20,192**	**23,051**	**25,726**
Trade and other payables	7,071	7,164	8,137	8,979
Amounts due to related parties	3	3	3	3
Income tax liabilities	730	730	730	730
Borrowings	10,129	13,634	15,059	16,484
Current liabilities	**19,845**	**23,444**	**25,841**	**28,109**
Borrowings	2,723	718	793	868
Non-current liabilities	**5,177**	**3,172**	**3,247**	**3,322**
Minority interests	**571**	**673**	**800**	**954**
Share capital	15	15	15	15
Reserves	9,866	10,909	12,223	13,804
Shareholders' equity	**9,882**	**10,924**	**12,238**	**13,819**

Cash Flow Statement

RMB Mn	2019A	2020E	2021E	2022E
Profit before tax	2,076	2,192	2,764	3,325
Depreciation of PPE	685	435	460	473
Changes in working capital	579	(178)	(784)	(694)
Others	769	301	278	265
Cash flow from operating	**4,109**	**2,750**	**2,718**	**3,368**
Purchase of PPE	(1,709)	(1,546)	(1,150)	(1,182)
Purchase of intangibles	34	(2,662)	(1,367)	(1,751)
Others	(457)	795	917	939
Cash flow from investing	**(2,132)**	**(3,413)**	**(1,600)**	**(1,993)**
New bank borrowings raised	29,795	1,500	1,500	1,500
Repayment of bank borrowings	(26,933)	0	0	0
Dividend paid to Yongda CLS	(471)	(513)	(647)	(779)
Others	(4,214)	(788)	(880)	(972)
Cash flow from financing	**(1,823)**	**199**	**(27)**	**(251)**
Inc/(dec) in cash & equiv.	154	(464)	1,091	1,124
Cash & cash equiv. at BOP	**2,056**	**2,210**	**1,746**	**2,837**
Cash & cash equiv. at EOP	**2,210**	**1,746**	**2,837**	**3,961**

Source: Company data, Morgan Stanley Research (E) estimates

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Yongda: Estimate Revisions

We lower our 2020-22 earnings estimates for Yongda by 6-11%, to reflect slower-than-expected sales recovery in mid- to high-end brands after COVID-19, We also factor in the 6.5% EPS dilution from the 120mn share placement in June 2020.

Exhibit 58:

Yongda: Estimate revisions

	OLD			NEW			CHANGE		
Rmb mn	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**
Revenue	66,218	77,297	85,641	63,796	72,539	80,250	-3.7%	-6.2%	-6.3%
Gross profit	6,423	7,543	8,656	6,199	7,125	8,065	-3.5%	-5.5%	-6.8%
Operating profit	3,091	3,848	4,645	2,944	3,603	4,252	-4.7%	-6.4%	-8.5%
Net profit	1,660	2,137	2,640	1,555	1,961	2,360	-6.3%	-8.2%	-10.6%
EPS (Rmb)	0.90	1.16	1.44	0.79	1.00	1.20	-12.3%	-14.1%	-16.4%
Gross margin	9.7%	9.8%	10.1%	9.7%	9.8%	10.0%	0.0	0.1	(0.1)
Operating margin	4.7%	5.0%	5.4%	4.6%	5.0%	5.3%	(0.1)	(0.0)	(0.1)
Net margin	2.5%	2.8%	3.1%	2.4%	2.7%	2.9%	(0.1)	(0.1)	(0.1)

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 59:

Yongda: Key assumptions

Yongda (3669.HK)

Operation Matrix	**2019A**	**2020E**	**2021E**	**2022E**
New car sales volume				
- Luxury brands	128,628	135,580	157,125	175,167
- Mid-to-high brands	68,754	67,604	71,779	76,037
Total sales volume	**197,382**	**203,184**	**228,904**	**251,204**
Revenue (Rmb mn)				
- New car sales	52,935	53,334	60,609	66,596
- After-sales services	8,897	9,557	11,011	12,704
- Auto rental services	528	571	617	668
- Finance leasing	511	499	490	490
Total revenue	**62,707**	**63,796**	**72,539**	**80,250**
Gross margin				
- New car sales	2.4%	2.7%	2.9%	3.0%
- After-sales services	46.4%	45.1%	44.6%	44.0%
- Auto rental services	25.4%	25.4%	25.4%	25.4%
- Finance leasing	67.5%	56.0%	55.0%	55.0%
Overall gross margin	**9.4%**	**9.7%**	**9.8%**	**10.0%**

YoY Change	**2019A**	**2020E**	**2021E**	**2022E**
Sales volume YoY				
- Luxury brands	16%	5%	16%	11%
- Mid-to-high brands	5%	-2%	6%	6%
Total sales volume	**12%**	**3%**	**13%**	**10%**
Revenue YoY				
- New car sales	13%	1%	14%	10%
- After-sales services	14%	7%	15%	15%
- Auto rental services	29%	8%	8%	8%
- Finance leasing	-6%	-2%	-2%	0%
Total revenue	**13%**	**2%**	**14%**	**11%**
Gross margin YoY (ppt)				
- New car sales	(0.0)	0.4	0.2	0.1
- After-sales services	0.2	(1.3)	(0.5)	(0.5)
- Auto rental services	(2.2)	-	-	-
- Finance leasing	3.7	(11.5)	(1.0)	-
Overall gross margin	**(0.1)**	**0.4**	**0.1**	**0.2**

Source: Company data, Morgan Stanley Research (E) estimates

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Yongda: Valuation Methodology

We use the base case scenario value from our DCF model to derive our price target for Yongda of HK$10.0. We cut Yongda's 2020-22 earnings estimates by 6-11%, to reflect: 1) slower-than-expected recovery of mid- to-high-end brands after COVID-19, such as Volkswagen and General Motors; 2) a lower after-sales growth over 2021-22, from 18% to 15%, as a result of tougher competition from independent repair chain stores, Che Xiang Jia, in particular. We also factor in the 6.5% EPS dilution from the 120mn share placement in June 2020. Therefore, we tweak down Yongda's price target from HK$12.0 to HK$10.0. Key assumptions are unchanged:

- 15.3% cost of equity: Derived from a beta of 1.85, an equity risk premium of 4.5%, a risk-free rate of 3.3%, and a China risk premium of 2.0%.
- 13% WACC: Derived from a 15.3% cost of equity and a post-tax cost of debt of 7.7%.
- 3% terminal growth.

Our bull case scenario value decreases by 13% to HK$13.0, and our bear case scenario value decreases by 15% to HK$4.0, largely in line with the 17% cut to our base case scenario value.

Exhibit 60:

Yongda: DCF valuation

Rmb mn	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	50,699	55,318	62,707	63,796	72,539	80,250	87,473	93,596	98,276	103,190	107,317	111,610	114,958	118,407
YoY%		9%	13%	2%	14%	11%	9%	7%	5%	5%	4%	4%	3%	3%
Pre-tax profit (EBIT)	**2,461**	**2,373**	**2,819**	**2,944**	**3,603**	**4,009**	**4,457**	**4,863**	**5,204**	**5,568**	**5,898**	**6,245**	**6,547**	**6,862**
EBIT margin	4.9%	4.3%	4.5%	4.6%	5.0%	5.0%	5.1%	5.2%	5.3%	5.4%	5.5%	5.6%	5.7%	5.8%
YoY%		-4%	19%	4%	22%	11%	11%	9%	7%	7%	6%	6%	5%	5%
+ Depreciation & Amortization	501	567	730	494	537	574	626	670	703	738	768	799	823	847
EBITDA	**2,962**	**2,940**	**3,548**	**3,438**	**4,140**	**4,583**	**5,083**	**5,533**	**5,907**	**6,306**	**6,666**	**7,044**	**7,370**	**7,710**
- Less adjusted taxes	(406)	(428)	(507)	(535)	(675)	(812)	(902)	(985)	(1,054)	(1,127)	(1,194)	(1,264)	(1,326)	(1,389)
- Capital expenditure	(1,295)	(1,630)	(1,709)	(1,546)	(1,150)	(1,182)	(1,182)	(1,182)	(1,182)	(1,182)	(1,182)	(1,182)	(1,182)	(1,182)
+/- Changes in working capital	(3,885)	(977)	579	(178)	(784)	(694)	(800)	(856)	(899)	(944)	(981)	(1,021)	(1,051)	(1,083)
Free cash flow	**(2,624)**	**(94)**	**1,912**	**1,179**	**1,532**	**1,895**	**2,199**	**2,510**	**2,773**	**3,053**	**3,308**	**3,577**	**3,811**	**4,055**
Discount factor				1.00	1.13	1.28	1.44	1.63	1.85	2.09	2.36	2.67	3.01	3.41
PV				1,179	1,356	1,483	1,522	1,537	1,502	1,463	1,402	1,341	1,264	1,190
Terminal value														12,201

Corporate NPV	**27,441**
Minorities	(673)
Net cash/(debt)	(9,682)
Equity NPV	**17,087**
NOSH	1,965
NPV Per share	8.7
Exchange rate	1.15
PT (HK$)	**10.0**

Cost of equity (%)	
Risk free rate (%)	3.3
Beta	1.85
HK Equity risk premium (%)	4.5
China Equity risk premium (%)	2.0
CAPM unleveraged discount rate	15.3
Estimated target gearing (net debt/EV) (%)	30.0
WACC (%)	13.0

Cost of debt (%)	
Average spread over risk-free rate (%)	7.0
Pre-tax cost of debt (%)	10.3
Average corporate tax rate for company (%)	25.0
Post-tax cost of debt (%)	7.7

Source: Company data, Morgan Stanley Research (E) estimates

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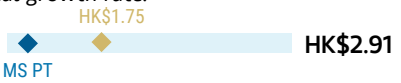
Risk Reward – Baoxin Auto Group (1293.HK)

Waiting for JLR dealers to recover

PRICE TARGET HK$1.30

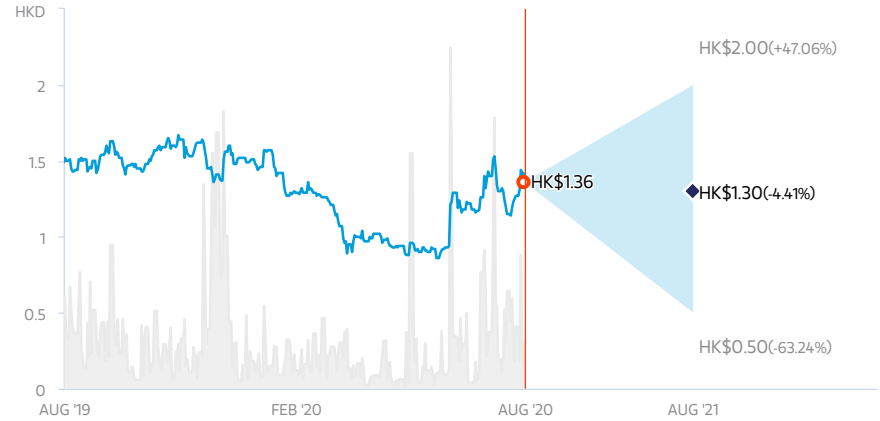
Base case, derived from DCF methodology. Our key assumptions include a 13% WACC (15.3% cost of equity and 7.7% cost of debt) and a 3% terminal growth rate.

Consensus Price Target Distribution



Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART

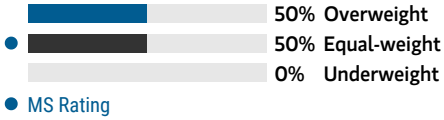


Source: Thomson Reuters, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- We expect Baoxin's JLR dealers would take more time to recover, while its BMW dealers are enjoying model upcycle.
- We believe most of the negatives – e.g., stagnant new store expansion and high financing cost – have been priced in.
- We view its risk-reward as reasonably balanced, because of potentially delayed recovery of JLR dealers amid COVID-19 impact.

Consensus Rating Distribution



Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Secular Growth:	*Positive*
Self-help:	*Negative*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$2.00

6x 2021E bull case EPS

JLR dealers recover successfully: Baoxin's JLR dealers show a notable margin recovery in 2H20. Baoxin's BMW dealers generate strong sales growth in 2H20 along with improving new car margin.

BASE CASE HK$1.30

4.5x 2021E base case EPS

JLR dealers recover steadily: Baoxin's JLR dealers show a gradual margin recovery in 2020 after volume recovery. Baoxin's BMW dealers post solid volume growth in 2H20 along with flattish YoY new car margin.

BEAR CASE HK$0.50

3x 2021E bear case EPS

JLR dealers fail to recover: Baoxin's JLR dealers fail to achieve margin recovery in 2H20. Baoxin's BMW new car sales slow notably amid economic slowdown.

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Risk Reward – Baoxin Auto Group (1293.HK)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
New car sales volume (000s)	111	112	120	126
New car gross margin (%)	2.3	2.2	2.3	2.4
New car revenue growth (%)	(2)	4	6	4
After-sales revenue growth (%)	5	4	14	12

CATALYST CALENDAR

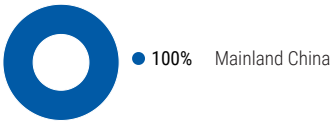
Date	Event
21 Aug 2020 - 25 Aug 2020	Half Year 2020 Grand Baoxin Auto Group Ltd Earnings Release

Source: Thomson Reuters, Morgan Stanley

INVESTMENT DRIVERS

- New car sales, especially sales of its key luxury brands.
- After-sales services volume.
- ASP of new cars and after-sales services.
- Network expansion plans.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected turnaround of JLR dealers.
- Better-than-expected sales of BMW cars.

RISKS TO DOWNSIDE

- Tougher-than-expected price competition among luxury dealers, which leads to greater-than-expected margin erosion.
- Higher-than-expected financing and tax expenses.

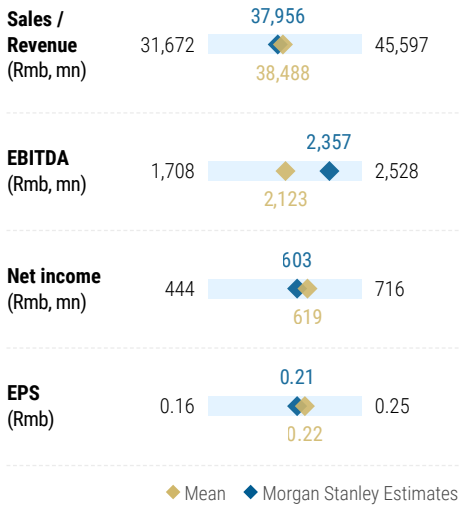
OWNERSHIP POSITIONING

Inst. Owners, % Active 55%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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Baoxin: Financial Summary

Exhibit 61:

Baoxin: Financial summary

Income Statement

Rmb Mn	2019A	2020E	2021E	2022E
Revenue	**36,464**	**37,956**	**40,626**	**42,813**
COGS	33,618	34,945	37,244	39,125
Gross profit	**2,846**	**3,011**	**3,382**	**3,689**
Other income & gains	870	838	898	944
Selling expenses	1,211	1,260	1,349	1,421
Administrative expenses	727	785	848	916
Operating profit	**1,778**	**1,804**	**2,083**	**2,295**
Finance costs	822	845	897	950
Share of profit of JCE	61	24	24	24
Profit before income tax	**1,017**	**983**	**1,210**	**1,370**
Income tax expense	394	381	469	531
Profit after tax	**623**	**602**	**741**	**839**
Minority interest	(6)	(1)	(1)	(1)
Net profit	**629**	**603**	**742**	**840**
EPS	**0.22**	**0.21**	**0.26**	**0.30**

Financial Analysis

	2019A	2020E	2021E	2022E
Growth (%)				
Revenue	-0.9%	4.1%	7.0%	5.4%
Operating profit	9.6%	1.5%	15.5%	10.2%
Net profit	13.1%	-4.2%	23.0%	13.2%
Margins (%)				
Gross margin	7.8%	7.9%	8.3%	8.6%
Operating margin	4.9%	4.8%	5.1%	5.4%
Net margin	1.7%	1.6%	1.8%	2.0%
EBITDA Margin	6.5%	6.3%	5.2%	5.4%
Return (%)				
ROA	2.2%	2.0%	2.4%	2.5%
ROE	8.2%	7.3%	8.2%	8.5%
Gearing (%)				
Total liabilities/assets	60%	60%	60%	59%
Total debt/equity	126%	124%	121%	117%
Net debt/equity	58%	58%	57%	55%
Efficiency				
Asset turnover (x)	1.3	1.3	1.3	1.3
Inventory days	41.5	37.3	36.9	37.1
Receivables days	101.3	105.1	103.6	104.3
Payable days	90.9	84.4	82.7	82.5
Cash days	51.9	58.0	57.8	58.9
Other Ratio				
Total Debt/EBITDA	3.2	3.4	4.1	4.0
EBITDA / Financial Cost	2.9	2.8	2.3	2.4
Current ratio	1.1	1.1	1.1	1.2
Quick ratio	0.1	0.1	0.1	0.1

Balance Sheet

Rmb Mn	2019A	2020E	2021E	2022E
PPE	3,460	3,922	4,346	4,732
Intangible assets	1,465	1,407	1,349	1,290
Prepayments	92	92	92	92
Interest in JVs	228	252	277	301
Long-term deferred assets	244	244	244	244
Non-current assets	**9,140**	**9,675**	**10,174**	**10,642**
Inventories	3,504	3,642	3,881	4,078
Trade receivables	614	639	684	720
Prepayment &other receivable	10,098	10,509	11,239	11,836
Cash and cash equivalents	1,713	1,886	1,865	2,093
Other current assets	3,709	3,908	4,225	4,524
Current assets	**19,637**	**20,583**	**21,893**	**23,251**
Short-term bank loans				
Trade and bills payables	6,587	6,847	7,297	7,666
Other payables and accruals	1,367	1,367	1,367	1,367
Short-term bank loans	7,688	8,182	8,675	9,169
Other current liabilitites	1,747	1,747	1,747	1,747
Current liabilities	**17,389**	**18,143**	**19,087**	**19,949**
Minority interests	**28**	**27**	**26**	**25**
Share capital	23	23	23	23
Reserves	7,646	7,646	7,646	7,646
Retained profit	0	603	1,344	2,184
Shareholders' equity	**7,670**	**8,272**	**9,014**	**9,854**

Cash Flow Statement

Rmb Mn	2019A	2020E	2021E	2022E
Profit before tax	1,017	983	1,210	1,370
Depreciation of PPE	272	291	329	367
Amortisation	276	262	269	275
Changes in working capital	(1,410)	(548)	(928)	(820)
Others	508	429	392	384
Operating cash flow	**662**	**1,417**	**1,272**	**1,576**
Purchases of PPE	(637)	(764)	(765)	(765)
Purchases of Land & Intangbile	(3)	(277)	(277)	(277)
Others	717	21	24	23
Investing cash flow	**76**	**(1,019)**	**(1,018)**	**(1,019)**
Bank borrowings	(229)	618	618	618
Others	(1,385)	(845)	(897)	(950)
Financing cash flow	**(1,614)**	**(227)**	**(279)**	**(332)**
Inc/(dec) in cash & equiv.	(876)	171	(25)	226
Cash & cash equiv. at BOP	2,569	1,694	1,865	1,840
Cash & cash equiv. at EOP	**1,694**	**1,865**	**1,840**	**2,066**

Source: Company data, Morgan Stanley Research (E) estimates

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Baoxin: Estimate Revisions

We lower our 2020-22 earnings estimates for Baoxin by 14-16%, to reflect slower-than-expected recovery of JLR new car sales in 1H20 and, as a result, a lower after-sales contribution from JLR brands in the next few years.

Exhibit 62:

Baoxin: Estimate revisions

	OLD			NEW			CHANGE		
Rmb mn	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**
Revenue	38,702	42,133	44,331	37,956	40,626	42,813	-1.9%	-3.6%	-3.4%
Gross profit	3,192	3,548	3,848	3,011	3,382	3,689	-5.6%	-4.7%	-4.1%
Operating profit	1,983	2,254	2,479	1,804	2,083	2,295	-9.0%	-7.6%	-7.4%
Net profit	716	861	983	603	742	840	-15.8%	-13.8%	-14.5%
EPS (Rmb)	0.25	0.30	0.35	0.21	0.26	0.30	-15.8%	-13.8%	-14.5%
Gross margin	8.2%	8.4%	8.7%	7.9%	8.3%	8.6%	(0.3)	(0.1)	(0.1)
Operating margin	5.1%	5.4%	5.6%	4.8%	5.1%	5.4%	(0.4)	(0.2)	(0.2)
Net margin	1.9%	2.0%	2.2%	1.6%	1.8%	2.0%	(0.3)	(0.2)	(0.3)

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 63:

Baoxin: Key assumptions

Baoxin (1293.HK)

Operation Matrix	**2019A**	**2020E**	**2021E**	**2022E**
New car sales volume				
- Luxury brands	83,620	87,075	93,800	100,243
- Mid-to-high brands	27,428	24,685	25,919	25,919
Total sales volume	**111,048**	**111,760**	**119,720**	**126,162**
Revenue (Rmb mn)				
- New car sales	31,688	32,977	34,938	36,431
- After-sales services	4,733	4,936	5,645	6,339
- Finance leasing	43	43	43	43
Total revenue	**36,464**	**37,956**	**40,626**	**42,813**
Gross margin				
- New car sales	2.3%	2.2%	2.3%	2.4%
- After-sales services	43.9%	45.6%	44.7%	43.9%
- Finance leasing	100%	100%	100%	100%
Overall gross margin	**7.8%**	**7.9%**	**8.3%**	**8.6%**

YoY Change	**2019A**	**2020E**	**2021E**	**2022E**
Sales volume YoY				
- Luxury brands	1%	4%	8%	7%
- Mid-to-high brands	-9%	-10%	5%	0%
Total sales volume	**-2%**	**1%**	**7%**	**5%**
Revenue YoY				
- New car sales	-2%	4%	6%	4%
- After-sales services	5%	4%	14%	12%
- Finance leasing	25%	0%	0%	0%
Total revenue	**-1%**	**4%**	**7%**	**5%**
Gross margin YoY (ppt)				
- New car sales	0.1	(0.1)	0.2	0.0
- After-sales services	(1.3)	1.7	(0.9)	(0.8)
- Finance leasing	-	-	-	-
Overall gross margin	**0.2**	**0.1**	**0.4**	**0.3**

Source: Company data, Morgan Stanley Research (E) estimates

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Baoxin: Valuation Methodology

We use the base case scenario value from our DCF model to derive our new price target for Baoxin of HK$1.3. We cut Baoxin's 2020-22 earnings estimates by 14-16%, to reflect lower-than-expected JLR sales, as JLR sales volume declined 22% YoY in 1H20 in China, under-performing BMW's 6% YoY volume decline and Mercedes-Benz's flat YoY. Meanwhile, we assume a higher medium-term growth, from 3.0% to 3.5%, to reflect higher after-sales growth in the longer term, supported by the "warranty extension insurance plans". Therefore, we keep Baoxin's price target unchanged at HK$1.3. Other key assumptions are unchanged:

- 15.3% cost of equity: Derived from a beta of 1.85, an equity risk premium of 4.5%, a risk-free rate of 3.3%, and a China risk premium of 2.0%;
- 13% WACC: Derived from a 15.3% cost of equity and a post-tax cost of debt of 7.7%;
- 3% terminal growth.

Exhibit 64:

Baoxin: DCF valuation

	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	34,558	36,791	36,464	37,956	40,626	42,813	44,954	46,752	48,622	50,081	51,583	53,131	54,725	56,366
YoY%	34%	6%	-1%	4%	7%	5%	5%	4%	4%	3%	3%	3%	3%	3%
Pre-tax profit (EBIT)	**1,889**	**1,622**	**1,778**	**1,804**	**2,083**	**2,295**	**2,410**	**2,507**	**2,607**	**2,685**	**2,766**	**2,849**	**2,934**	**3,022**
EBIT margin	5%	4%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
YoY%	97%	-14%	10%	1%	15%	10%	5%	4%	4%	3%	3%	3%	3%	3%
+ Depreciation & Amortization	432	424	548	553	598	643	675	702	730	752	774	798	822	846
EBITDA	**2,321**	**2,046**	**2,326**	**2,357**	**2,681**	**2,938**	**3,085**	**3,209**	**3,337**	**3,437**	**3,540**	**3,646**	**3,756**	**3,869**
- Less adjusted taxes	(357)	(346)	(394)	(381)	(469)	(531)	(543)	(564)	(587)	(604)	(623)	(641)	(660)	(680)
- Capital expenditure	(1,261)	(1,502)	(1,183)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)	(1,030)
+/- Changes in working capital	(1,276)	(1,118)	(1,410)	(548)	(928)	(820)	(787)	(818)	(851)	(877)	(903)	(930)	(958)	(987)
Free cash flow	**(574)**	**(920)**	**(662)**	**398**	**255**	**558**	**726**	**796**	**869**	**926**	**985**	**1,045**	**1,108**	**1,172**
Discount factor				1.00	1.13	1.28	1.44	1.63	1.85	2.09	2.36	2.67	3.01	3.41
PV				398	225	436	503	488	471	444	417	392	367	344
Terminal value														3,525

Corporate NPV	**8,011**
Minorities	(27)
Net cash/(debt)	(4,776)
Equity NPV	**3,208**
NOSH	2,837
NPV Per share	1.13
Exchange rate	1.15
PT (HK$)	**1.3**

Cost of equity (%)	
Risk free rate (%)	3.3
Beta	1.9
HK Equity risk premium (%)	4.5
China Equity risk premium (%)	2.0
CAPM unleveraged discount rate	15.3
Estimated target gearing (net debt/EV) (%)	30.0
WACC (%)	13.0

Cost of debt (%)	
Average spread over risk-free rate (%)	7.0
Pre-tax cost of debt (%)	10.3
Average corporate tax rate for company (%)	25.0
Post-tax cost of debt (%)	7.7

Source: Company data, Morgan Stanley Research (E) estimates

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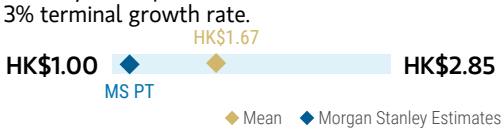
Risk Reward – China Zhengtong Auto Services (1728.HK)

More exposed to longer-term downturn

PRICE TARGET HK$1.10

Base case, derived from DCF methodology. Our key assumptions include a 13% WACC (15.3% cost of equity and 7.7% cost of debt) and a 3% terminal growth rate.

Consensus Price Target Distribution



Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART

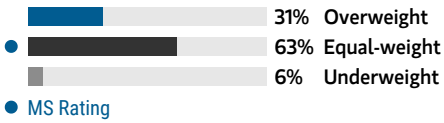
Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- We expect Zhengtong's new car sales to remain weak in the near term, due to tight working capital.
- Zhengtong has been reducing its auto finance business to preserve liquidity.
- We view its risk-reward as balanced, because of slower new car demand recovery in the near term.

Consensus Rating Distribution



Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Secular Growth:	*Positive*
Self-help:	*Negative*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$2.10

6x 2021E bull case EPS

New car sales recover with improving margin: Zhengtong's new car sales from key luxury brands recover to double-digit YoY growth in 2020, and new car margin improves with OEM rebate. Auto finance growth accelerates with low funding cost.

BASE CASE HK$1.10

4x 2021E base case EPS

New car sales remain weak in the near term: Zhengtong's new car sales from key luxury brands such as BMW, JLR and Audi remains weak in 2020 due to the COVID-19 outbreak. Auto finance growth slows down to preserve liquidity.

BEAR CASE HK$0.40

2x 2021E bear case EPS

New car sales drop notably with deteriorating margin: Zhengtong's new car sales from key luxury brands drop notably, while new car margin deteriorates. Auto finance profit declines because of fewer loans to external dealers and soaring funding cost.

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Risk Reward – China Zhengtong Auto Services (1728.HK)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
New car sales volume (000s)	103	103	109	114
New car gross margin (%)	4.0	4.6	5.0	5.0
After-sales revenue growth (%)	10	2	6	6
Auto finance revenue growth (%)	8	6	5	5

CATALYST CALENDAR

Source: Thomson Reuters, Morgan Stanley

Date	Event
28 Aug 2020 - 01 Sep 2020	Half Year 2020 China ZhengTong Auto Services Holdings Ltd Earnings Release

INVESTMENT DRIVERS

- New car sales, especially sales of its key luxury brands.
- After-sales services volume.
- ASP of new cars and after-sales services.
- Transaction volumes of auto finance business.
- Network expansion plans.

GLOBAL REVENUE EXPOSURE

100% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected new car sales.
- Gross profit margin improvement of key brands, such as BMW.
- Stronger-than-expected auto finance and used car business growth.

RISKS TO DOWNSIDE

- Tougher-than-expected price competition among luxury dealers, which leads to greater-than-expected margin erosion.
- Slower-than-expected recovery of JLR dealers.

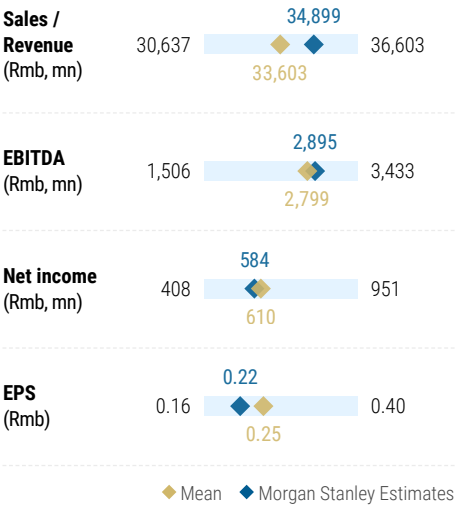
OWNERSHIP POSITIONING

Inst. Owners, % Active 87.7%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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Zhengtong: Financial Summary

Exhibit 65:

Zhengtong: Financial summary

Income Statement

Rmb Mn	2019A	2020E	2021E	2022E
Revenue	**35,138**	**34,899**	**36,890**	**37,787**
COGS	(31,319)	(30,898)	(32,560)	(33,284)
Gross profit	**3,818**	**4,001**	**4,330**	**4,502**
Other income & gains	851	833	879	924
Selling expenses	(1,100)	(1,117)	(1,180)	(1,209)
Admin and general expenses	(1,392)	(1,431)	(1,476)	(1,511)
Operating profit	**2,178**	**2,287**	**2,554**	**2,706**
Finance costs	(1,076)	(1,325)	(1,385)	(1,445)
Share of results of associates	62	61	65	66
Profit before income tax	**1,163**	**1,024**	**1,233**	**1,327**
Income tax expense	(396)	(349)	(420)	(452)
Profit after tax	**767**	**675**	**813**	**875**
Minority interest	(103)	(91)	(109)	(117)
Net profit	**664**	**584**	**704**	**757**
EPS	**0.27**	**0.22**	**0.26**	**0.28**

	2019A	2020E	2021E	2022E
Growth (%)				
Revenue	-6.2%	-0.7%	5.7%	2.4%
Operating profit	-21.2%	5.0%	11.7%	6.0%
Net profit	-45.8%	-12.0%	20.5%	7.6%
Margins (%)				
Gross margin	10.9%	11.5%	11.7%	11.9%
Operating margin	6.2%	6.6%	6.9%	7.2%
Net margin	1.9%	1.7%	1.9%	2.0%
Return (%)				
ROA	1.5%	1.3%	1.5%	1.5%
ROE	5.4%	4.6%	5.4%	5.6%
Gearing (%)				
Total liabilities/assets	70%	69%	69%	69%
Total debt/equity	157%	159%	160%	160%
Net debt/equity	141%	135%	131%	128%
Efficiency				
Asset turnover (x)	0.8	0.8	0.8	0.8
Inventory days	42.7	38.7	35.3	35.8
Receivable days	117.3	123.4	119.1	118.6
Payable days	47.7	42.0	40.7	41.3
Cash days	112.4	120.1	113.7	113.1
Other Ratio				
Total debt / EBITDA	3.5	4.0	3.8	3.8
EBITDA / financial cost	2.9	2.2	2.3	2.3
Current ratio	0.9	1.0	1.0	1.0
Quick ratio	0.5	0.5	0.6	0.6

Balance Sheet

Rmb Mn	2019A	2020E	2021E	2022E
PPE	6,609	6,172	5,763	5,382
Intangible assets	7,625	7,952	8,365	8,875
Interest in a JVs	355	416	481	548
Long-term deferred assets	321	321	321	321
Goodwill	1,935	1,935	1,935	1,935
Other non current assets	3,877	4,058	4,274	4,475
Non-current assets	**20,722**	**20,855**	**21,140**	**21,537**
Inventories	3,483	3,061	3,228	3,305
Trade receivables	11,651	11,952	12,128	12,423
Pledged bank deposits	1,399	1,399	1,399	1,399
Cash and cash equivalents	1,497	2,660	3,496	4,148
Other current assets	6,105	6,362	6,667	6,952
Current assets	**24,136**	**25,435**	**26,918**	**28,227**
Trade and bills payables	3,581	3,533	3,723	3,806
Short-term debt (non-finance)	11,061	11,577	12,093	12,608
Short-term debt (finance)	5,967	6,245	6,523	6,801
Income tax payable	2,064	2,064	2,064	2,064
Other payables and accruals	2,715	2,715	2,715	2,715
Current liabilities	**25,819**	**26,585**	**27,588**	**28,485**
Long-term debt (non-finance)	2,524	2,642	2,760	2,878
Long-term debt (finance)	15	16	17	17
Deferred income tax liabilities	1,028	1,028	1,028	1,028
Non-Current liabilities	**5,399**	**5,585**	**5,771**	**5,957**
Minority interests	**1,222**	**1,313**	**1,422**	**1,539**
Share capital	209	209	209	209
Reserves	12,209	12,599	13,068	13,573
Shareholders' equity	**12,418**	**12,808**	**13,277**	**13,782**

Cash Flow Statement

Rmb Mn	2019A	2020E	2021E	2022E
Operating cash flow	2,546	2,180	2,069	2,093
Investing cash flow	(969)	(498)	(613)	(743)
Financing cash flow	(2,995)	(519)	(620)	(698)
Exchange difference	5	0	0	0
Inc/(dec) in cash & equiv.	(1,414)	1,163	835	652
Cash & cash equiv. at BOP	2,911	1,497	2,660	3,496
Cash & cash equiv. at EOP	**1,497**	**2,660**	**3,496**	**4,148**

Source: Company data, Morgan Stanley Research (E) estimates

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Zhengtong: Estimate Revisions

We lower our 2020-22 earnings estimates for Zhengtong by 23-26%, to reflect lower-than-expected new car sales in 1H20. Due to tight working capital, Zhengtong's dealers are likely to sell fewer cars. As a result, dealers could receive fewer OEM rebates if they miss their sales targets. We also factor in the 10% EPS dilution from the 245mn share placement in July 2020.

Exhibit 66:

Zhengtong: Estimate revisions

	OLD			NEW			CHANGE		
Rmb mn	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Revenue	35,035	37,006	37,886	34,899	36,890	37,787	-0.4%	-0.3%	-0.3%
Gross profit	4,075	4,390	4,555	4,001	4,330	4,502	-1.8%	-1.4%	-1.2%
Operating profit	2,375	2,638	2,877	2,287	2,554	2,706	-3.7%	-3.2%	-5.9%
Net profit	786	913	1,028	584	704	757	-25.6%	-22.9%	-26.3%
EPS (Rmb)	0.32	0.37	0.42	0.22	0.26	0.28	-32.4%	-29.9%	-33.0%
Gross margin	11.6%	11.9%	12.0%	11.5%	11.7%	11.9%	(0.2)	(0.1)	(0.1)
Operating margin	6.8%	7.1%	7.6%	6.6%	6.9%	7.2%	(0.2)	(0.2)	(0.4)
Net margin	2.2%	2.5%	2.7%	1.7%	1.9%	2.0%	(0.6)	(0.6)	(0.7)

Source: Company data, Morgan Stanley Research (E) estimates

Exhibit 67:

Zhengtong: Key assumptions

Zhengtong (1728.HK)

Operation Matrix	2019A	2020E	2021E	2022E
New car sales volume				
- Luxury brands	81,735	81,717	87,510	91,540
- Mid-to-high brands	21,485	20,840	21,882	22,539
Total sales volume	**103,220**	**102,557**	**109,393**	**114,079**
Revenue (Rmb mn)				
- New car sales	28,564	28,191	29,794	30,291
- After-sales services	4,771	4,858	5,143	5,467
- Auto finance (prop)	910	966	1,017	1,071
- Logistics	893	885	935	957
Total revenue	**35,138**	**34,899**	**36,890**	**37,787**
Gross margin				
- New car sales	4.0%	4.6%	5.0%	5.0%
- After-sales services	44.8%	44.4%	43.9%	43.5%
- Auto finance (prop)	60.3%	57.2%	57.2%	57.2%
- Logistics	0.0%	0.0%	0.0%	0.0%
Overall gross margin	**10.9%**	**11.5%**	**11.7%**	**11.9%**

YoY Change	2019A	2020E	2021E	2022E
Sales volume YoY				
- Luxury brands	-5%	0%	7%	5%
- Mid-to-high brands	-18%	-3%	5%	3%
Total sales volume	**-8%**	**-1%**	**7%**	**4%**
Revenue YoY				
- New car sales	-9%	-1%	6%	2%
- After-sales services	10%	2%	6%	6%
- Auto finance (prop)	8%	6%	5%	5%
- Logistics	19%	-1%	6%	2%
Total revenue	**-6%**	**-1%**	**6%**	**2%**
Gross margin YoY (ppt)				
- New car sales	(2.1)	0.6	0.4	(0.0)
- After-sales services	(1.4)	(0.5)	(0.4)	(0.4)
- Auto finance (prop)	(13.3)	(3.0)	-	(0.0)
- Logistics	8.3	-	-	-
Overall gross margin	**(1.1)**	**0.6**	**0.3**	**0.2**

Source: Company data, Morgan Stanley Research (E) estimates

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Zhengtong: Valuation Methodology

We use the base case scenario value from our DCF model to derive our price target for Zhengtong of HK$1.1. We cut Zhengtong's 2020-22 earnings estimates by 23-26%, to reflect lower-than-expected new car sales in 1H20. We also factor in the 10% EPS dilution from the 245mn shares placement in July 2020. Meanwhile, we assume higher medium-term growth, from 3% to 5%, to reflect higher new car growth after the operations are returned to normal. Therefore, we cut Zhengtong's price target by 15% to HK$1.1 (from HK$1.3). Other key assumptions are unchanged:

- 15.3% cost of equity: Derived from a beta of 1.85, an equity risk premium of 4.5%, a risk-free rate of 3.3%, and a China risk premium of 2%;
- 13% WACC: Derived from a 15.3% cost of equity and a post-tax cost of debt of 7.7%;
- 3% terminal growth.

We cut our bull case scenario value by 13% to HK$2.1, and our bear case scenario value by 20% to HK$0.4, largely in line with the 15% decrease in our price target.

Exhibit 68:

Zhengtong: DCF valuation

Zhengtong (Rmb mn)	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Turnover	35,474	37,456	35,138	34,899	36,890	37,787	39,298	41,656	44,155	46,363	48,681	50,629	52,654	54,233
YoY%	13%	6%	-6%	-1%	6%	2%	4%	6%	6%	5%	5%	4%	4%	3%
Pre-tax profit (EBIT)	**2,426**	**2,763**	**2,178**	**2,287**	**2,554**	**2,706**	**2,893**	**3,150**	**3,427**	**3,691**	**3,973**	**4,233**	**4,508**	**4,752**
EBIT margin	6.8%	7.4%	6.2%	6.6%	6.9%	7.2%	7%	8%	8%	8%	8%	8%	9%	9%
YoY%	94%	14%	-21%	5%	12%	6%	7%	9%	9%	8%	8%	7%	6%	5%
+ Depreciation & Amortization	442	555	956	608	609	615	640	678	719	755	792	824	857	883
EBITDA	**2,868**	**3,318**	**3,134**	**2,895**	**3,162**	**3,321**	**3,532**	**3,828**	**4,146**	**4,446**	**4,765**	**5,057**	**5,365**	**5,634**
- Less adjusted taxes	(542)	(635)	(396)	(349)	(420)	(452)	(483)	(526)	(573)	(617)	(664)	(707)	(753)	(794)
- Capital expenditure	(815)	(2,290)	(1,244)	(661)	(617)	(576)	(576)	(576)	(576)	(576)	(576)	(576)	(576)	(576)
+/- Changes in working capital	(3,473)	(2,499)	(605)	(366)	(674)	(776)	(431)	(457)	(485)	(509)	(534)	(556)	(578)	(595)
Free cash flow	**(1,963)**	**(2,106)**	**889**	**1,520**	**1,451**	**1,517**	**2,041**	**2,268**	**2,512**	**2,744**	**2,991**	**3,218**	**3,457**	**3,669**
Discount factor				1.00	1.13	1.28	1.44	1.63	1.85	2.67	3.01	3.41	3.85	4.36
PV				1,520	1,284	1,187	1,413	1,389	1,361	1,029	992	944	897	842
Terminal value														8,637

Corporate NPV	**21,495**
Minorities	(1,313)
Net cash/(debt)	(17,709)
Equity NPV	**2,473**
NOSH	2,697
NPV Per share	0.92
Exchange rate	1.15
PT (HK$)	**1.1**

Cost of equity (%)		Cost of debt (%)	
Risk free rate (%)	3.3	**Average spread over risk-free rate (%)**	7.0
Beta	1.85	**Pre-tax cost of debt (%)**	10.3
HK Equity risk premium (%)	4.5	**Average corporate tax rate for company (%)**	25.0
China Equity risk premium (%)	2.0	**Post-tax cost of debt (%)**	7.7
CAPM unleveraged discount rate	15.3		
Estimated target gearing (net debt/EV) (%)	30.0		
WACC (%)	13.0		

Source: Company data, Morgan Stanley Research (E) estimates

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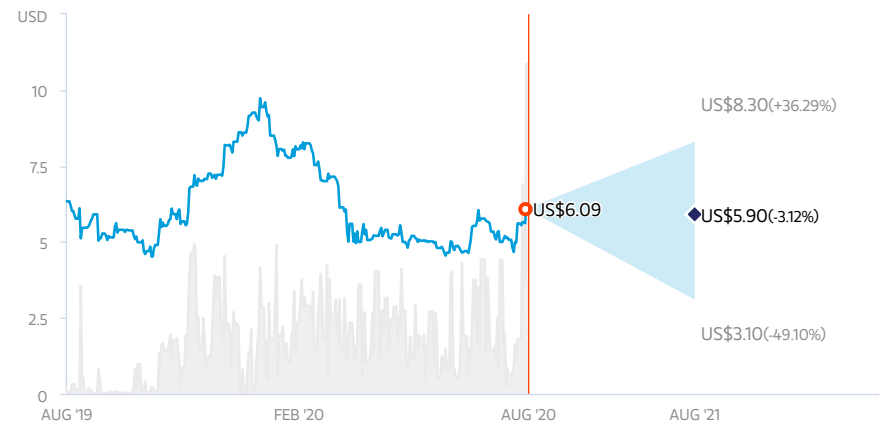
Risk Reward – Cango Inc. (CANG.N)

Market share gains in challenging environment; Equal-weight

PRICE TARGET US$5.90

Our target P/E multiple is now set at 14.6x 2021e EPADS, in-line with the stock's trading average of the past 12 months. We expect the multiple to normalize in 2H20 driven by the business recovery and market share gains.

RISK REWARD CHART



Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- Amid a deteriorating operating environment resulting from COVID 19, we expect a weak outlook in Cango's core segment (i.e., loan facilitation for new car sales in lower-tier cities).
- We think Cango's loan facilitation model with a large base of dealers, diversified revenue streams, scalable cost structure and management track record, can help it gain market share over the long term.
- We stay Equal-weight as a near-term pickup in loan delinquency from COVID-19 and related one-time provision costs could continue to pressure the share price.

Risk Reward Themes

Regulation:	*Negative*
Self-help:	*Positive*
Share Gain:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE US$8.30

17.5x 2021e bull case EPADS

Our bull case EPADS is 10% and 20% higher than our base case EPADS for 2020E and 2021E, respectively, and factors in a strong earnings growth rebound of 92% in 2021E, which should drive re-rating to 17.5x, which is +1 SD higher than the average forward P/E.

BASE CASE US$5.90

14.6x 2021e base case EPADS

Our base case reflects our earnings estimates. Our target P/E multiple is set at 14.6x, the average of the past 12 months, as we expect the multiple to normalize driven by the business recovery and market share gains.

BEAR CASE US$3.10

11.5x 2021e bear case EPADS

Our bear case EPADS is 20% and 30% lower than our base case EPADS for 2020E and 2021E, respectively, and factors in an earnings recovery of 54% YoY in 2021E from a low base in 2020. We see limited re-rating opportunities in this case with a target P/E of 11.5x, which is -1 SD lower than its average forward P/E for the last year.

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Risk Reward – Cango Inc. (CANG.N)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Loan volume growth (%)	29.2	(8.4)	26.7	20.4
Loan facilitations take rate (%)	3.5	3.3	3.4	3.3
Operating expense growth (%)	3.3	3.1	9.0	17.0

INVESTMENT DRIVERS

- Asset quality
- Loan Origination
- After market revenue growth
- Cost control
- Regulations

GLOBAL REVENUE EXPOSURE

● 100% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

RISKS TO PT/RATING

RISKS TO UPSIDE

1) Better-than-expected asset quality trends.
2) Better-than-expected new car sales recovery.
3) Better-than-expected margin improvement from cost control and dealer productivity.

RISKS TO DOWNSIDE

1) Asset quality deterioration.
2) Worse-than-expected new car sales.
3) Margin compression from weaker-than-expected cost control and lower dealer productivity.
4) Unexpected regulatory tightening

OWNERSHIP POSITIONING

Inst. Owners, % Active	100%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	14.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue (Rmb, mn)
◆ 1,353
Note: There are not sufficient brokers supplying consensus data for this metric

EBITDA (Rmb, mn)
◆ 202
Note: There are not sufficient brokers supplying consensus data for this metric

Net income (Rmb, mn)
◆ 235
Note: There are not sufficient brokers supplying consensus data for this metric

EPS (Rmb)
◆ 1.55
Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

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Cango: Financial Summary

Exhibit 69:

Cango's financial summary

Operating metrics	2019	2020E	2021E	2022E
# of dealer covered	49,238	45,674	46,595	47,533
# of active dealer	21,172	19,640	20,036	20,439
Financing transaction amount (Rmb mn)	28,054	25,700	32,567	39,215
Outstanding principal of financing (Rmb mn)	40,032	41,974	48,179	56,706

YoY	2019	2020E	2021E	2022E
# of dealer covered	5.7%	-7.2%	2.0%	2.0%
# of active dealer	16.0%	-7.2%	2.0%	2.0%
Amount of financing transaction	29.2%	-8.4%	26.7%	20.4%
Outstanding principal of financing	16.9%	4.9%	14.8%	17.7%

Income statement (Rmb mn)	2019	2020E	2021E	2022E
Loan facilitation revenue	914	783	1,025	1,198
Leasing income	300	311	363	437
After-market revenue	206	248	298	343
Total revenue	**1,440**	**1,353**	**1,697**	**1,988**
Cost of revenue	539	439	525	628
Gross profit	**901**	**914**	**1,171**	**1,361**
Sales and marketing	193	195	238	268
General and admin	237	238	281	331
Research and development	57	59	68	78
Credit related loss	91	220	143	163
Total operation cost	**1,117**	**1,151**	**1,254**	**1,468**
Income from operation	323	202	442	521
Profit before taxation	488	304	521	600
Net income	**391**	**235**	**414**	**479**
Adjusted net income	**473**	**317**	**503**	**584**
EPADS - Diluted (Rmb)	**2.58**	**1.55**	**2.73**	**3.16**
Adjusted EPADS - Diluted (Rmb)	**3.12**	**2.09**	**3.32**	**3.85**

YoY	2019	2020E	2021E	2022E
Loan facilitation revenue	-0.3%	-14.4%	31.0%	16.9%
Leasing income	407.8%	3.7%	16.6%	20.4%
After-market revenue	105.9%	20.6%	20.0%	15.0%
Total revenue	**31.9%**	**-6.0%**	**25.4%**	**17.2%**
Cost of revenue	25.4%	-18.6%	19.6%	19.5%
Gross profit	**36.2%**	**1.4%**	**28.2%**	**16.2%**
Sales and marketing	15.3%	1.2%	21.7%	13.0%
General and admin	56.6%	0.5%	18.0%	18.0%
Research and development	22.9%	2.5%	15.0%	15.0%
Credit related loss	492.5%	142.3%	-34.9%	13.7%
Total operation cost	**3.3%**	**3.1%**	**9.0%**	**17.0%**
Income from operation	16.8%	-37.5%	118.8%	17.7%
Profit before taxation	23.2%	-37.7%	71.4%	15.2%
Net income	**29.1%**	**-39.8%**	**75.8%**	**15.7%**
Adjusted net income	**40.8%**	**-33.0%**	**58.8%**	**16.0%**
EPADS - Diluted (Rmb)	**19.6%**	**-39.8%**	**75.8%**	**15.7%**
Adjusted EPADS - Diluted (Rmb)	**30.4%**	**-33.0%**	**58.8%**	**16.0%**

Balance sheet (Rmb mn)	2019	2020E	2021E	2022E
Cash and cash equivalent	2,002	2,635	2,657	2,706
Restricted cash	1,845	1,599	1,599	1,599
Financial leasing receivables	3,110	3,193	3,593	4,044
Investment	1,145	1,296	1,296	1,296
Total assets	**8,737**	**9,319**	**9,774**	**10,308**
Borrowing	2,605	3,027	3,027	3,027
Risk assurance liabilities	260	273	313	368
Total liabilities	**3,245**	**3,561**	**3,601**	**3,656**
Total Equity - incl. mez equity	**5,492**	**5,759**	**6,173**	**6,652**

Key Metrics	2019	2020E	2021E	2022E
As % of revenue				
Gross Profit	**62.6%**	**67.5%**	**69.0%**	**68.4%**
Sales and marketing	13.4%	14.4%	14.0%	13.5%
Other Opex	20.4%	21.9%	20.5%	20.6%
Net margin	**27.1%**	**17.4%**	**24.4%**	**24.1%**
Loan facilitations take rate	3.5%	3.3%	3.4%	3.3%
After market revenue contribution	14.3%	18.4%	17.6%	17.2%
RoE	**7.3%**	**4.2%**	**6.9%**	**7.5%**

Source: Company data, Morgan Stanley Research (E) estimates

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Cango: Estimate Revisions

We lower Cango's 2021-22 earnings estimates by 1-2%, to reflect slower-than-expected auto sales recovery for Chinese local brands.

Exhibit 70:

Cango: Estimate revisions

	OLD			NEW			CHANGE		
Rmb mn	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**	**2020E**	**2021E**	**2022E**
Revenue	1,309	1,722	1,939	1,353	1,697	1,988	3.4%	-1.5%	2.5%
Gross profit	927	1,150	1,323	914	1,171	1,361	-1.4%	1.8%	2.9%
Operating profit	269	508	597	202	442	521	-24.9%	-12.9%	-12.7%
Net profit	234	419	487	235	414	479	0.8%	-1.1%	-1.7%
Adj. net profit	294	496	573	317	503	584	8.0%	1.5%	1.9%
EPADS (Rmb)	1.54	2.77	3.22	1.55	2.73	3.16	0.6%	-1.4%	-1.9%
Adj. EPADS (Rmb)	1.94	3.28	3.79	2.09	3.32	3.85	7.7%	1.2%	1.6%
Gross margin	70.8%	66.8%	68.2%	67.5%	69.0%	68.4%	(3.3)	2.2	0.2
Operating margin	20.6%	29.5%	30.8%	14.9%	26.1%	26.2%	(5.6)	(3.4)	(4.6)
Net margin	22.4%	28.8%	29.5%	23.4%	29.7%	29.4%	1.0	0.9	(0.2)

Source: Company data, Morgan Stanley Research (E) estimates

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Cango: Valuation Methodology

We tweak down Cango's 2021-22 earnings estimates by 1-2%, to reflect slower-than-expected auto sales recovery of Chinese local brands. Meanwhile, we use a higher P/E multiple of 14.6x, from 13.1x previously, to derive Cango's price target of US$5.9 (up from US$5.2). The 14.6x P/E multiple is based on the one-year historical average of forward P/E, and reflects higher recovery visibility after COVID-19 and better market liquidity.

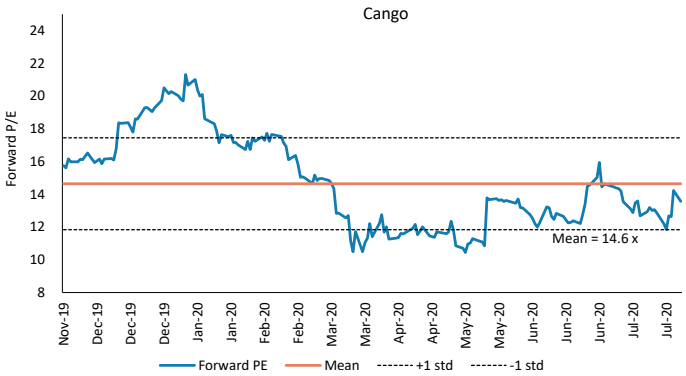
We also raise the bull case value from US$7.7 to US$8.3 and the bear case value from US$2.8 to US$3.1, in-line with the increase to our base case.

Our bull case value is 17.5x our bull case EPADS forecast, to factor in accelerated earnings growth from a better-than-expected business recovery. Our bull case EPADS is 10% and 20% higher than our base case EPADS for 2020E and 2021E, respectively, and factors in a strong earnings growth rebound of 92% in 2021E, which should drive re-rating to 17.5x, which is +1 SD higher than the average forward P/E.

Our bear case value is 11.5x of our bear case EPADS forecast, to factor in a weaker-than-expected growth recovery and potential credit risk increases. Our bear case EPADS is 20% and 30% lower than our base case EPADS for 2020E and 2021E, respectively, and factors in an earnings recovery of 54% YoY in 2021E from a low base in 2020. We see limited re-rating opportunities in this case with a target P/E of 11.5x, which is -1 SD lower than its average forward P/E for the last year.

Exhibit 71:

Cango's historical forward P/E



Source: Refinitiv, Morgan Stanley Research

Exhibit 72:

Cango's base / bull / bear case scenario values

	2019	2020E	2021E	2022E
Base Case Scenario				
Net Income (Rmb mn)	391	235	414	479
YoY Growth	*29.1%*	*-39.8%*	*75.8%*	*15.7%*
EPADS (Rmb)	2.58	1.55	2.73	3.16
EPADS (USD)	0.38	0.23	0.40	0.46
Target P/E (Year-end)			14.6	
Base Value		**US$**	**5.90**	
Bull Case Scenario				
Net Income (Rmb mn)	391	259	497	575
YoY Growth	*29.1%*	*-33.7%*	*91.8%*	*15.7%*
% Higher than Base		*10%*	*20%*	*20%*
EPADS (Rmb)	2.58	1.71	3.28	3.79
EPADS (USD)	0.38	0.25	0.47	0.55
Target P/E (Year-end)			17.5	
Bull Value		**US$**	**8.30**	
Bear Case Scenario				
Net Income (Rmb mn)	391	188	290	335
YoY Growth	*29.1%*	*-51.8%*	*53.8%*	*15.7%*
% Lower than Base		*-20%*	*-30%*	*-30%*
EPADS (Rmb)	2.58	1.24	1.91	2.21
EPADS (USD)	0.38	0.18	0.27	0.32
Target P/E (Year-end)			11.5	
Bear Value		**US$**	**3.10**	

Source: Morgan Stanley Research (E) estimates

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Risk Reward – Fuyao Glass Industry Group (3606.HK)

Balanced risk-reward reflects upside from new US plants is priced in

PRICE TARGET HK$22.00

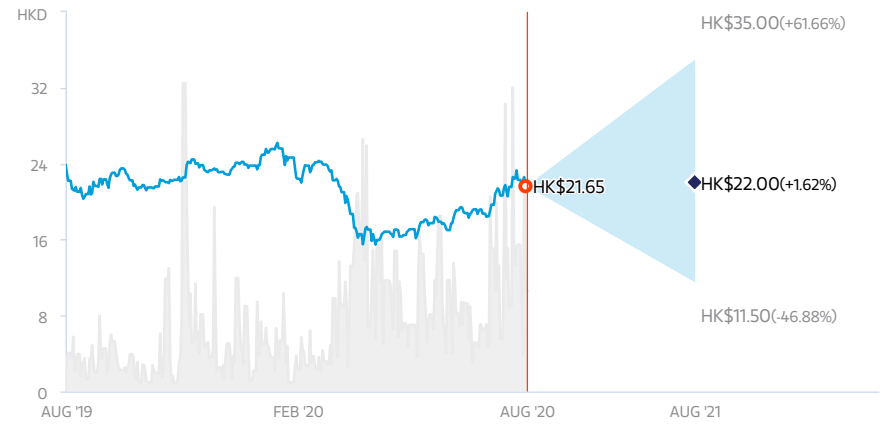
Base case, from 1.15 HKD/RMB FX rate assumed for A-share base case price target. Our key assumptions include a 7.8% WACC (10% cost of equity and 6% cost of debt) and a 3.5% steady-state revenue growth.

Consensus Price Target Distribution HK$15.18 — HK$22.45 (MS PT) — HK$30.38

Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART



Key: — Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- As the leader in China's automotive glass market with 65-70% revenue market share, Fuyao will likely benefit from the trend toward higher-value products.
- We expect Fuyao's order flow to slow down due to weak auto demand and model launch delays.
- However, Fuyao should achieve further revenue expansion on an upgraded product mix, market share gains globally and new aluminium business.

Consensus Rating Distribution

53% Overweight
41% Equal-weight
6% Underweight
MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Earnings Quality:	*Positive*
Macroeconomics:	*Negative*
Share Gain:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$35.00

20x 2020E bull case EPS

US plant operational ramp-up and SAM consolidation move ahead of market expectations in 2020, while domestic auto sales remain solid. Fuyao's YoY revenue growth approaches 15% in 2020. Gross margin remains resilient thanks to improving operations in the US and Russia. Domestic auto sales remain solid.

BASE CASE HK$22.00

18x 2020E base case EPS

China's automotive glass market continues to outpace PV sales in 2020, while US expansion and SAM consolidation stay on track. Fuyao's revenue growth exceeds overall market growth, thanks to value content upgrades in China and share gain in the US/Europe and Russia. Gross margin remains flattish in 2020 due to dilution by SAM consolidation.

BEAR CASE HK$11.50

11x 2020E bear case EPS

China's PV market deteriorates in 2020, while US expansion progress lags expectations. Inventory correction for autos leads to a suspension in order placements to the supply chain in 2020. Fuyao's revenue growth remains low and gross margin contracts in 2020 due to falling utilization.

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Risk Reward – Fuyao Glass Industry Group (3606.HK)

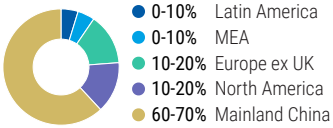
KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
China revenue growth (%)	(7)	(3)	23	12
US revenue growth (%)	15	(7)	25	7
Operating expense ratio (%)	21.2	21.5	21.7	21.5
Inventory days	90	104	95	97

INVESTMENT DRIVERS

- China auto sales.
- Profitability improvement at new US plant with growing scale.
- Progress of SAM restructuring and consolidation.
- Decline in materials/energy costs, which make up 70%+ of the COGS in glass production.

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Higher-than-expected China auto sales growth.
- Acceleration in US/EU market share gains.

RISKS TO DOWNSIDE

- Greater-than-expected slowdown in China's PV market.
- Delay in its US plant ramp-up.
- Increase in energy/materials costs.

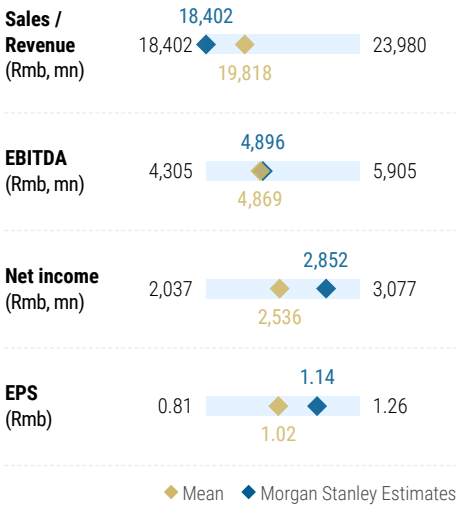
OWNERSHIP POSITIONING

Inst. Owners, % Active 88.5%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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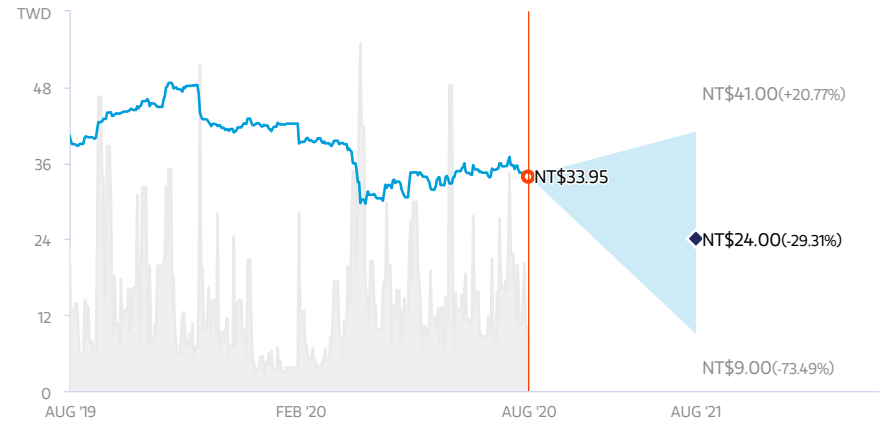
Risk Reward – Cheng Shin Rubber (2105.TW)

Slower ramp-up of new plants; competition intensifies

PRICE TARGET NT$24.00

Base case, derived from residual income model. Key assumptions include a 6.7% cost of equity and a 3% terminal growth rate.

RISK REWARD CHART



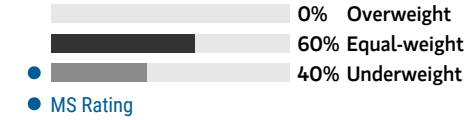
Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research

UNDERWEIGHT THESIS

- We see greater risk of gross margin contraction, impairing earnings growth.
- Competition is intensifying in China's auto tire market, and CSR lacks competitive advantages vs. both foreign and local brands.
- Limited contribution from new plants in India and Indonesia, weaker revenue, and launching costs are likely to weigh on gross margins.

Consensus Rating Distribution



Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Out of consensus:	*Negative*
Pricing Power:	*Negative*

View descriptions of Risk Rewards Themes, here

BULL CASE NT$41.00

30x 2020e bull case EPS

Stronger-than-expected demand from emerging markets: 1) Revenue recovers notably in 2020 from stronger share gains in emerging markets; 2) raw material prices decline in 2020; and 3) gross margin recovers to the historical level of 30% seen in 2015-16 as ASP increase partially offsets raw material price hike.

BASE CASE NT$24.00

24x 2020e base case EPS

Muted recovery, given intensified competition: 1) Revenue recovers slightly in 2020; 2) gross margin remains flat in 2020 given pricing pressures; and 3) operating profit margin recovers in 2020 thanks to lower opex.

BEAR CASE NT$9.00

11x 2020e bear case EPS

Weaker demand in emerging markets, raw material costs continue to rise: 1) Revenue declines YoY in 2020 on weaker demand in emerging markets; 2) raw material prices continue to rise, and ASP increase is limited; and 3) gross margin deteriorates in 2020.

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Risk Reward – Cheng Shin Rubber (2105.TW)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Sales volume growth (%)	10	(12)	18	3
ASP growth (%)	(7)	(2)	(4)	1
Operating expense ratio (%)	15.5	14.2	14.2	14.2
Inventory days	77	77	77	77

CATALYST CALENDAR

Source: Thomson Reuters, Morgan Stanley

Date	Event
07 Aug 2020 - 11 Aug 2020	Q2 2020 Cheng Shin Rubber Ind. Co Ltd Earnings Release
10 Aug 2020 - 14 Aug 2020	July 2020 Cheng Shin Rubber Ind. Co Ltd Corporate Sales Release
08 Sep 2020 - 14 Sep 2020	August 2020 Cheng Shin Rubber Ind. Co Ltd Corporate Sales Release
12 Oct 2020 - 16 Oct 2020	September 2020 Cheng Shin Rubber Ind. Co Ltd Corporate Sales Release
09 Nov 2020 - 13 Nov 2020	Q3 2020 Cheng Shin Rubber Ind. Co Ltd Earnings Release

INVESTMENT DRIVERS

- Growth in emerging markets, especially China, through OEM relationships.
- Raw material pricing.
- Execution in developed markets, affecting blended ASPs.
- Enforcement of emission updates.

GLOBAL REVENUE EXPOSURE

- 0-10% North America
- 10-20% Europe ex UK
- 20-30% APAC, ex Japan, Mainland China and India
- 50-60% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected increase in demand in China.
- Lower-than-expected raw material prices.
- Stronger-than-expected replacement tire demand globally.

RISKS TO DOWNSIDE

- Slower-than-expected increase in demand in China.
- Higher-than-expected raw material prices.
- Weaker-than-expected replacement tire demand globally.

OWNERSHIP POSITIONING

Inst. Owners, % Active 55.9%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue (NT$, mn) — ◆ 95,552

Note: There are not sufficient brokers supplying consensus data for this metric

EBIT (NT$, mn) — ◆ 7,364

Note: There are not sufficient brokers supplying consensus data for this metric

EPS (NT$) — ◆ 1.06

Note: There are not sufficient brokers supplying consensus data for this metric

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

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Risk Reward – PICC P&C Company Ltd (2328.HK)

Incorporating credit business disruption

PRICE TARGET HK$12.00

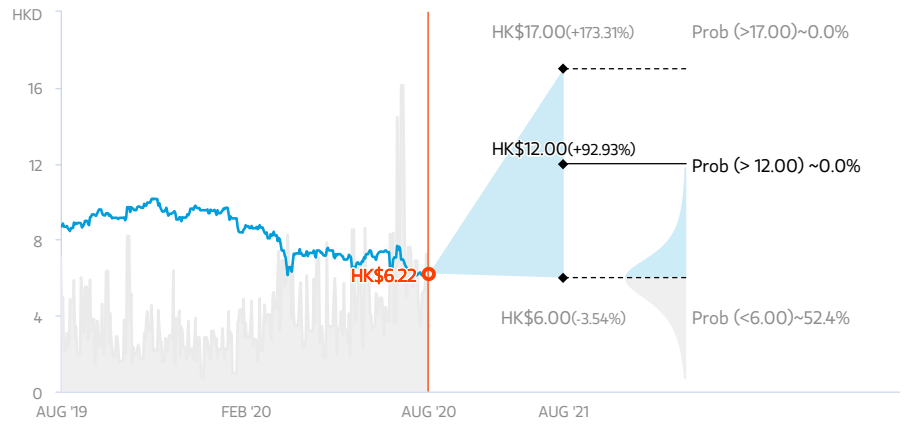
Base case, three-stage DDM. We apply 13% cost of capital and assume 42%, 64% and 80% dividend payouts in the three stages (2020-22, 2023-28, >2028), respectively. Corresponding dividend growth rates of 7%, 18% and 2%. The implied P/B ratio for PICC P&C is 1.2x.

Consensus Price Target Distribution HK$6.62 — HK$9.45 — HK$12.34 (MS PT)

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance ○ Current Stock Price ◆ Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 07 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

- PICC P&C's valuation remains low at 0.7x 2020E P/BV - attractive, in our view, relative to its ~15% ROE and ~40% dividend payout ratio.
- We see opportunity for PICC P&C to continue to outperform peers, given what we view as its higher-quality earnings and more resilient balance sheet.
- PICC P&C's auto profitability remained resilient amid continued deregulation, and further cost reduction through technology and efficiency gains could also bring additional upside.
- The continued shift toward non-auto business should also bring sustainable growth and margin upside.
- Disruption from credit line could be a short-term event, in our view, as the company already sharply downsized this business line.

Consensus Rating Distribution

76%	Overweight
20%	Equal-weight
4%	Underweight

MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Out of consensus:	*Positive*
Regulation:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE HK$17.00

1.8x bull case 2020E BV

High rate environment with stable A-share performance: PICC P&C can maintain its current investment yield. Besides, we see potential for higher ROE on the back of mix shift toward non-auto lines. We thus value PICC P&C at 1.8x P/B based on its 18% bull case ROE profile, 11% cost of capital and 2% terminal growth.

BASE CASE HK$12.00

1.2x base case 2020E BV

Volatile A-share market and stable growth over short term: We apply a 13% cost of capital. We value PICC P&C using a three-stage DDM model assuming 42%, 64% and 80% dividend payouts in the three stages (2020-22, 2023-28, >2028), respectively, and corresponding dividend growth rates of 7%, 18% and 2%. The implied P/B ratio for PICC P&C is 1.2x.

BEAR CASE HK$6.00

0.6x bear case 2020E BV

The Chinese stock market falls with low investment yield and CoR deterioration: We value PICC P&C at 0.6x P/B based on its 10% Group ROE profile, 17% cost of capital and 0% terminal growth rate.

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Risk Reward – PICC P&C Company Ltd (2328.HK)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
GWP growth (%)	11.4	3.8	8.4	9.7
Auto mix (%)	60.9	60.8	58.1	55.6
Auto CoR (%)	96.7	96.4	96.2	96.0
Non-auto CoR (%)	103.9	100.9	100.0	99.7

CATALYST CALENDAR

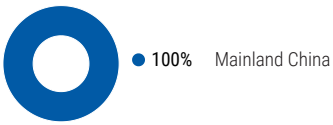
Source: Thomson Reuters, Morgan Stanley

Date	Event
21 Aug 2020 - 25 Aug 2020	Half Year 2020 PICC Property and Casualty Co Ltd Earnings Release
27 Oct 2020 - 02 Nov 2020	Q3 2020 PICC Property and Casualty Co Ltd Earnings Release

INVESTMENT DRIVERS

- Combined ratio.
- Investment return.
- Premium growth.

GLOBAL REVENUE EXPOSURE



100% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

1/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Better-than-expected auto profitability amid deregulation
- Mild natural catastrophe losses

RISKS TO DOWNSIDE

- Worse-than-expected market competition amid further premium regulation that could cause a sharp decline in profitability.
- Worse-than-normal natural disasters.
- Worse-than-expected credit underwriting losses
- Potential interest rate cut, dampening investment returns.

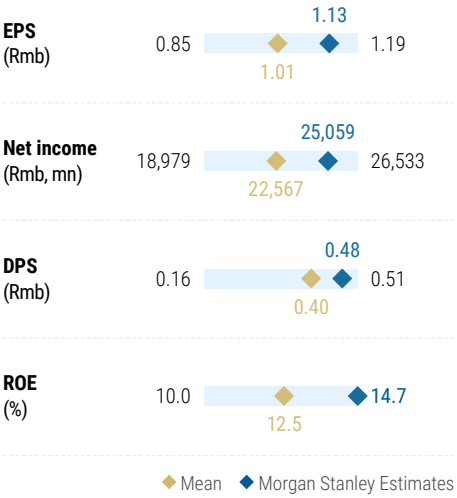
OWNERSHIP POSITIONING

Inst. Owners, % Active 81.2%

Source: Thomson Reuters, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e



Source: Thomson Reuters, Morgan Stanley Research

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Risk Reward – Alibaba Group Holding (BABA.N)

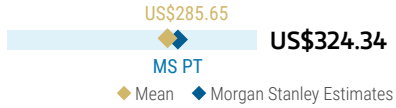
Improving GMV growth vs. peers in F1Q21 - catalyst ahead for a big laggard

PRICE TARGET US$290.00

US$290: base case, sum of the parts.

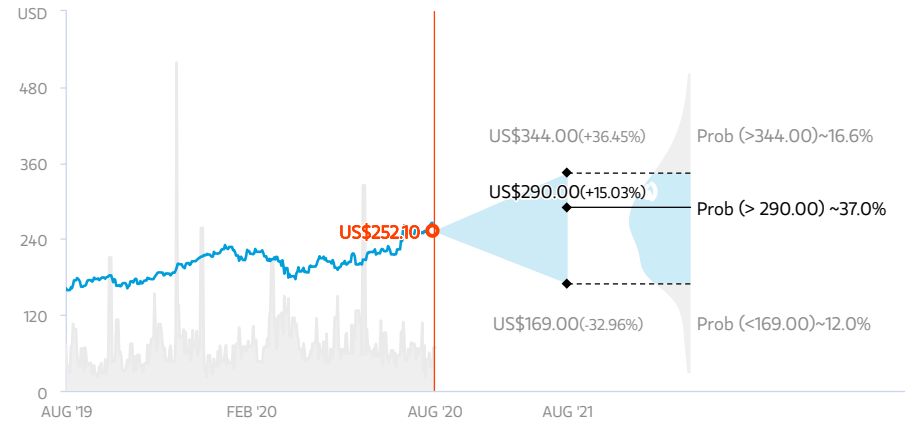
- **Core business - US$220:** Discounted cash flow - 11% discount rate, 4% exit growth rate, 14x FCF multiple for our terminal number.
- **AliCloud and equity investments - US$70:** Cloud is based on 5x EV/sales on F2026e revenue, discounted back at 11%. Multiple is above the 3x we use for Tencent Cloud, given AliCloud's leading position in China's public cloud market. Value of investment portfolio is marked to market.

Consensus Price Target Distribution US$221.23



Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



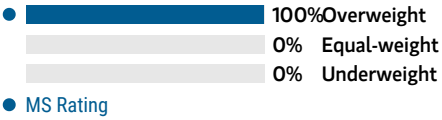
Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 07 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

- COVID-19 has accelerated e-commerce penetration, especially in FMCG (fast-moving consumer goods), the next core category for e-commerce.
- Alibaba is set to benefit from this secular trend, given its leading position, and we expect it to maintain >50% market share over time, thanks to its strong ecosystem.
- In addition, merchants' marketing budgets will continue to shift online given increasing reliance on e-commerce and better conversion. Alibaba's ad resources remain undermonetized.
- Our new target implies 25x F22e P/E, in line with the average since 2017. Despite its recent rally, BABA's NTM forward P/E discount to Tencent is deeper than the historical average of 20% since 2017.

Consensus Rating Distribution



Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Earnings Quality:	*Positive*
Secular Growth:	*Positive*
Self-help:	*Positive*

View descriptions of Risk Rewards Themes, here

BULL CASE US$344.00

28x bull case non-GAAP F2022e EPS

Chinese retail GMV registers 16% CAGR in F2019-22E, driven by stronger GMV growth and higher average spending: Newer categories show faster online penetration,and Tmall solidifies its position as the go-to platform for brands looking to enter China. Chinese retail revenue CAGR of 34% in F2019-22E outpaces GMV growth.

BASE CASE US$290.00

25x base case non-GAAP F2022e EPS

Chinese retail GMV posts a 15% CAGR in F2019-22E, while Chinese retail revenue rises at a 30% CAGR, outpacing GMV growth: Monetization rate in F2022E reaches 4.1% vs. 3.6% in F2019.

BEAR CASE US$169.00

17x bear case non-GAAP F2022e EPS

Chinese retail GMV posts a 11% CAGR in F2019-22E: Taobao/Tmall lose some traction as buyers opt to shop at more specialized sites or new apps. Chinese retail revenue CAGR is therefore slower at 23% for F2019-22E.

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Risk Reward – Alibaba Group Holding (BABA.N)

KEY EARNINGS INPUTS

Drivers	2020	2021e	2022e	2023e
China retail e-commerce annual active consumers (mn)	726	793	840	882
China retail e-commerce ARPU (Rmb)	9,076	9,801	10,413	10,997
Core of core take rate (%)	3.7	3.9	4.1	4.2
Core of core adj. EBITA (Rmb, mn)	192,771	237,296	288,759	335,231
AliCloud ARPPU (Rmb)	26,668	39,760	56,193	74,773

CATALYST CALENDAR

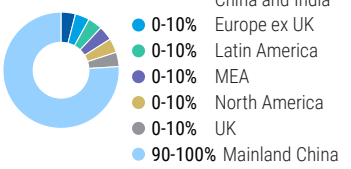
Date	Event
13 Aug 2020 - 17 Aug 2020	Q1 2021 Alibaba Group Holding Ltd Earnings Release
30 Oct 2020 - 03 Nov 2020	Q2 2021 Alibaba Group Holding Ltd Earnings Release

Source: Thomson Reuters, Morgan Stanley

INVESTMENT DRIVERS

- Revenue growth, especially in core China e-commerce
- Monetization rate (i.e., Alibaba's Chinese retail marketplace revenue/GMV).
- Non-GAAP EBITA margins

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

3/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Better core e-commerce monetization drives earnings growth upside.
- Faster enterprise digitalization re-accelerates cloud revenue growth.

RISKS TO DOWNSIDE

- Intensified competition in less-developed regions would slow down GMV growth, limit upside on monetization ramp, and pose downside to margins.
- Lingering macro headwinds may pressure discretionary spending in China and affect our GMV and earnings forecasts.

OWNERSHIP POSITIONING

Inst. Owners, % Active	77.9%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	14.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Mar 2021e

Sales / Revenue (Rmb, mn)	642,466	669,194 / 664,050	695,756
EBITDA (Rmb, mn)	171,160	178,717 / 198,913	220,952
Net income (Rmb, mn)	126,192	165,186	195,769
EPS (Rmb)	46.36	60.62	70.60

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

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Risk Reward – JD.com, Inc. (JD.O)

Riding the favorable FMCG e-commerce opportunity with clear margin improvement

PRICE TARGET US$64.00

Our price target is our base case scenario value, derived from a DCF valuation, which is our preferred methodology because it incorporates our long-term view of the company's operations. In our DCF model, we apply a 12% WACC and a 3% terminal growth rate.

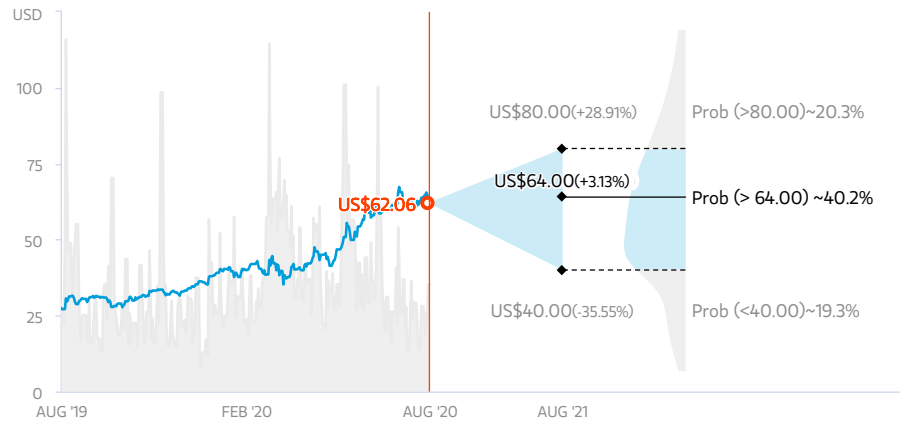
Consensus Price Target Distribution US$35.34 — US$67.11 — US$78.08

MS PT

Mean Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance Current Stock Price Price Target

Source: Thomson Reuters, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 07 Aug, 2020. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology, here

OVERWEIGHT THESIS

- JD has demonstrated strong execution in balancing growth and margin expansion. Together with its strong cash position, JD is able to expand market share amid the increasing online penetration of e-commerce.
- We expect JD to ride the fast-growing FMCG e-commerce trend in China due to a low online penetration rate (3.6% in 2019). Behavior changes in FMCG shopping during the COVID-19 benefits e-commerce players.
- JD should also benefit from a home appliance sales recovery in 2H20 and onwards thanks to the property completion upcycle.
- It is trading at 28.3x 2021e non-GAAP EPS and 0.67x PEG, which we believe still indicates upside potential given the long runway for margin expansion.

Consensus Rating Distribution

90% Overweight
10% Equal-weight
0% Underweight

MS Rating

Source: Thomson Reuters, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Earnings Quality:	*Positive*
Macroeconomics:	*Negative*

View descriptions of Risk Rewards Themes, here

BULL CASE US$80.00

30x 2021e bull case non-GAAP P/E

Stronger margin expansion for JD Retail and JD Logistics:

JD Retail: EBIT margin improves to 4.2% in 2021e, 32bp higher than our base case, driven by gross margin improvement and better operating leverage.

JD Logistics and other businesses: LBIT margin narrows to 1.9% in 2021e, 160bp better than our base case, driven by strong volume growth and better cost control.

As a result, non-GAAP net margin reaches 3.3% in 2021e, 50bp above our base case.

BASE CASE US$64.00

29.7x 2021e base case non-GAAP P/E

On-track margin expansion for JD Retail and JD Logistics:

JD Retail: EBIT margin improves to 3.9% in 2021e from 3.2% in 2020e, driven by gross margin improvement and operating leverage.

JD Logistics and other businesses: LBIT margin narrows to 3.5% in 2021e from 11% in 2020e, driven by strong volume growth and cost control.

As a result, non-GAAP net margin reaches 2.8% in 2021e from 2% in 2020e.

BEAR CASE US$40.00

24x 2021e bear case non-GAAP P/E

Competition and aggressive expansion result in softer margins:

JD Retail: EBIT margin improves to 3.6% in 2021e, 30bp lower than our base case, due to lower gross margin and smaller operating leverage.

JD Logistics and other businesses: LBIT margin widens to 6.4% in 2021e, 290bp worse than our base case, due to aggressive investments amid slower business growth.

As a result, non-GAAP net margin reaches 2.2% in 2021e, 55bp below our base case.

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Risk Reward – JD.com, Inc. (JD.O)

KEY EARNINGS INPUTS

Drivers	2019	2020e	2021e	2022e
Active customers (mn)	362.0	437.4	477.4	505.4
GMV per active customer (Rmb)	5,760.8	5,761.9	6,164.9	6,666.5
1P GPM (%)	8.9	9.4	9.7	10.2
Fulfillment exp as % of GMV (%)	1.7	1.8	1.7	1.7

CATALYST CALENDAR

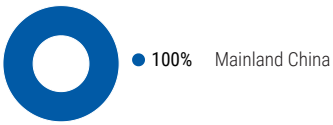
Date	Event
17 Aug 2020	Q2 2020 JD.com Inc Earnings Release
13 Nov 2020 - 17 Nov 2020	Q3 2020 JD.com Inc Earnings Release

Source: Thomson Reuters, Morgan Stanley

INVESTMENT DRIVERS

- 1Q20 results and 2020 earnings guidance
- Active customer re-acceleration
- Execution on margin expansion

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies, here

MS ALPHA MODELS

2/5 MOST — 3 Month Horizon

Source: Thomson Reuters, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster-than-expected margin expansion from operating leverage.
- Faster-than-expected growth in FMCG e-commerce and home appliances.
- Successful penetration in lower-tier cities drives up user growth.

RISKS TO DOWNSIDE

- COVID-19 outbreak adversely affects demand for discretionary products.
- Slower-than-expected growth in home appliances and general merchandise (especially FMCG).
- Intensified competition

OWNERSHIP POSITIONING

Inst. Owners, % Active	78.3%
HF Sector Long/Short Ratio	2x
HF Sector Net Exposure	14.2%

Thomson Reuters; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2020e

Sales / Revenue (Rmb, mn)	698,782	713,070 / 714,878	730,063
EBITDA (Rmb, mn)	15,745	17,134 / 19,837	27,650
Net income (Rmb, mn)	9,464	9,510 / 14,025	17,800
EPS (Rmb)	6.30	9.17	11.61

◆ Mean ◆ Morgan Stanley Estimates

Source: Thomson Reuters, Morgan Stanley Research

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(as of July 31, 2020)

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	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1288	39%	337	45%	26%	573	39%
Equal-weight/Hold	1418	43%	328	44%	23%	678	46%
Not-Rated/Hold	4	0%	1	0%	25%	3	0%
Underweight/Sell	554	17%	86	11%	16%	225	15%
Total	3,264		752			1479	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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INDUSTRY COVERAGE: China Autos & Shared Mobility

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/10/2020)
Eddy Wang, CFA		
Uxin Limited (UXIN.O)	O (07/23/2018)	US$1.22
Jack Yeung		
Anhui Jianghuai Automobile (600418.SS)	U (08/03/2020)	Rmb9.38
BAIC Motor (1958.HK)	O (01/08/2018)	HK$3.87
Brilliance China Automotive (1114.HK)	O (10/22/2013)	HK$8.33
Chongqing Changan Automobile (000625.SZ)	E (08/03/2020)	Rmb11.15
Chongqing Changan Automobile (200625.SZ)	O (11/28/2013)	HK$4.16
Dongfeng Motor Group (0489.HK)	O (05/11/2020)	HK$5.59
FAW Car Company Limited (000800.SZ)	U (07/11/2015)	Rmb14.22
Geely Automobile Holdings (0175.HK)	U (03/13/2020)	HK$16.76
Great Wall Motor Company Limited (601633.SS)	U (03/13/2020)	Rmb15.38
Great Wall Motor Company Limited (2333.HK)	U (08/03/2020)	HK$8.24
Guangzhou Automobile Group (601238.SS)	U (10/23/2019)	Rmb10.80
Guangzhou Automobile Group (2238.HK)	O (05/05/2020)	HK$7.85
Jiangling Motors Company (000550.SZ)	U (12/01/2016)	Rmb14.34
Jiangling Motors Company (200550.SZ)	U (12/01/2016)	HK$5.44
SAIC Motor Corp. Ltd. (600104.SS)	E (01/14/2020)	Rmb18.30
John Cai		
Cango Inc. (CANG.N)	E (11/18/2019)	US$6.58
Shelley Wang, CFA		
Baoxin Auto Group (1293.HK)	E (01/14/2020)	HK$1.30
China MeiDong Auto Holdings Ltd (1268.HK)	O (04/22/2020)	HK$22.85
China Yongda Automobiles Services (3669.HK)	O (07/25/2019)	HK$8.21
China Zhengtong Auto Services (1728.HK)	E (03/13/2020)	HK$1.08
Zhongsheng Group Holdings (0881.HK)	O (07/25/2019)	HK$48.00
Tim Hsiao		
BAIC BluePark New Energy (600733.SS)	O (08/28/2019)	Rmb7.14
BYD Company Limited (002594.SZ)	E (04/29/2020)	Rmb81.98
BYD Company Limited (1211.HK)	E (04/15/2020)	HK$76.40
Changzhou Xingyu Automotive Lighting Sys (601799.SS)	E (03/13/2020)	Rmb144.30
EHang Holdings Ltd (EH.O)	O (01/06/2020)	US$9.69
Fuyao Glass Industry Group (600660.SS)	E (12/01/2016)	Rmb29.19
Fuyao Glass Industry Group (3606.HK)	E (12/01/2016)	HK$24.90
Huayu Automotive (600741.SS)	E (03/13/2020)	Rmb23.70
Minth Group Limited (0425.HK)	O (08/24/2015)	HK$23.05
NavInfo Co Ltd (002405.SZ)	E (09/13/2018)	Rmb19.26
Nexteer Automotive Group (1316.HK)	E (01/15/2018)	HK$4.92
Ningbo Joyson Electronic Corp (600699.SS)	U (03/13/2020)	Rmb22.71
NIO Inc. (NIO.N)	E (09/26/2019)	US$14.21
Zhejiang Sanhua Intelligent Controls (002050.SZ)	O (01/15/2020)	Rmb22.39
Zhengzhou Yutong Bus Co (600066.SS)	E (04/17/2020)	Rmb14.39

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